MARKET UNDER INCREASED PRESSURE

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

SEPTEMBER 24, 1960 85 CENTS

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Cover depicts Khrushchev and his henchmen converging on the U.N.

C. G. Wyckoff, President and Treasurer; Arthur G. Gaines, Secretary. The information herein is obtained from reliable sources and while not guaranteed we believe to be accurate. Single copies on newstands in U. S. and Canada: 85 cents. Place a standing order with your newsdealer and he will secure copies regularly. Entered as second-class matter January 30, 1915, at P. O. New York, Act of March 3, 1879. Published every other Saturday.

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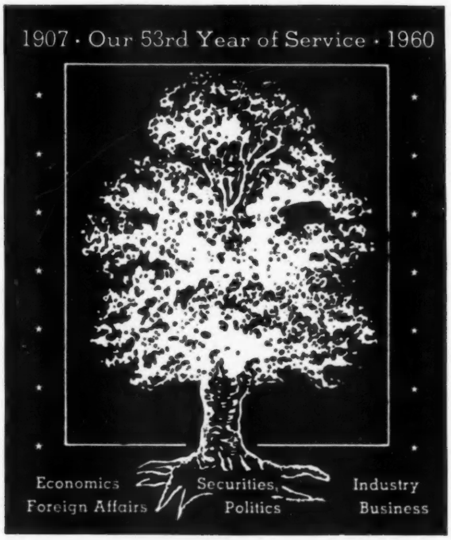
A GREAT FUTURE

It is not improbable, within the next decade, that the amount of communication between electronic business machines in different cities will be as large as telephone communication between people.

BELL TELEPHONE SYSTEM

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

KHRUSHCHEV WANTS TO BE GOD . . . In his lust for power this egomaniac has used the forces of evil to destroy the ethical and moral standards of a civilization that made it possible for individuals and nations to honor and adhere to written and verbal agreements. He has permitted nothing to stand in his way in his struggle to become master of the world, and to usurp the image of God in the minds of men.

This man, who threatens to destroy us with his rockets, who insults the people of this country by cheaply taking advantage of a technicality that enables him to come to our country *against our will,* feels himself to be omnipotent. And yet a single stroke can lay him low, just as a pin prick can deflate a big balloon as easily as it does a little one.

In fact, if Hurricane Donna had shifted her course, her gale winds and the heavy seas could have finished off Khrushchev and his crew, and they would now be at the bottom of the Atlantic. But evidently his time is not yet. Apparently he will know a more spectacular end — coming as a backlash from the destructive forces he himself unleashed upon the world, as was true in recent times in the case of Hitler and Mussolini.

In every country, including our own, the subversive agents of Khrushchev's Soviet Union have been undermining the people in every stratum of society. They have permeated the areas of government, both Federal and local. They have operated through various avenues in industry, through the unions—in journalism—and in the field of entertainment—through lecturers in our colleges and printed material for our public schools—to cite but a few instances. As far back as the Franklin Roosevelt Administration, Soviet spies have penetrated our classified security risk posts—in our Treasury Department through Under Secretary White, who later committed suicide—in diplomacy through Alger Hiss—and in other high echelons. In fact, the Soviet Union is working everywhere in this country, spreading discontent among the colored races and the various nationalities.

The sneaky Communists have penetrated our civil service, too; for regardless of change of Administration, the Civil Service is not affected and only by some drastic misconduct can anyone in that category be removed. This makes our country most vulnerable, as was clearly shown by the deflection of the mentally and physically unreliable Bernon F. Mitchell and William H. Martin.

And yet this man Khrushchev, who threatened "to bury us," calls himself the "Apostle of Peace," and charges the United States with carrying on the very machinations that he is responsible for.

Mr. James Reston of the New York Times described him rather well, when he referred to Khrushchev's un-

We call the attention to the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

mitigated gall, and compared his character with that of a man "who had killed his father and mother, after which he pleaded for mercy on the ground that he was an orphan!"

On every hand the people of this country express shock that this unwelcome guest should have been permitted to come to this country in the first place. That — some way should have been found to prevent him from stepping foot on our soil, where he is unquestionably going to deliver what he hopes will be a decisive propaganda blow against the U.S.A., for the distinct purpose of seriously affecting our position before the nations of the world.

Let us face it — our relationship with other countries is based on confidence. It is respect in the final analysis that holds agreements, financial contracts and trade together, and Khrushchev is taking advantage of our involvement in a Presidential Election Campaign, to break down our prestige.

At the same time, he *(Please turn to page 56)*

As I See It!

By Jack Bame

THE TREASURY SOLVES A BASIC PROBLEM ...THAT MAKES THE U.S. BOND BUYER AND THE GOVERNMENT HAPPY TOO.

THE oasis, in the midst of all the gloomy news confronting us each day — ranging from concern about the economic situation here at home — to the relative weakness of the dollar abroad and our balance of payments woes — and on through the troubled areas of the world — the Congo and Cuba too — makes it a double pleasure to report on something so optimistic and constructive as the Treasury's new move in debt management.

On Friday, September 9, the U.S. Treasury announced the terms of a precedent-making advance refunding of long-term U.S. government bonds.

It is a "senior" refunding — a term referring to a situation where holders of securities of intermediate maturity (5 to 12 years) are offered the opportunity to exchange into long-term issues (15 to 40 years) on terms mutually advantageous to the holder and the Treasury.

The details of the present refunding, for which the subscription books close midnight, September 20, are outlined in the official announcement, reprinted on this page.

What is The Significance of The Move?

Debt management, despite all efforts of Treasury officials, has really been practically non-existent, at least until now. One of the three primary objectives of debt management is, according to the Treasury Department, "to achieve a balanced maturity structure of the public debt." This has been anything but the case, as is evident from the fact that on June 30, 1960, almost 80% of the $184 billion of marketable public debt had less than five years to run to maturity against less than 50% at the end of 1946 and 71% in December 1953.

The advance refunding aims to help stop this trend, promoting a lengthening of the debt with a minimum change in ownership.

The move was not made earlier because market conditions did not allow for such an extension under the existing $4\frac{1}{4}\%$ rate ceiling until the recent decline in interest rates. (The cost of exchange into the 1980 $3\frac{1}{2}$'s is 4.23%, almost reaching this ceiling.)

The improved debt structure arrived at through the advance refunding, will also help give the Treasury more flexibility in future financing operations. This includes reducing dependence on inflationary short-term bank borrowing, as govern-

ment bonds are made more attractive to long-term investors.

Another advantage: it reduces the "interference" effects which heavy refundings or large cash offerings would have on mortgage, corporate and municipal financing channels. Advance refunding should disturb the money markets very little, as no new cash is required and no significant redistribution of funds is needed.

An argument against the advance refunding, characterized by one Senator as "a vulgar, double-barreled give-away to special interests" might have some validity if the *only* job of the Treasury were to minimize borrowing costs. *But* it is also a function of debt management to contribute to an orderly growth of the economy without inflation, and to balance the maturity structure of the public debt, as previously stated. And the Treasury must take into account the effects of its actions on money and financial markets and the economy in general. Borrowing as cheaply as possible is desirable, but not at the expense of other objectives, which are most often more important.

Another response to criticism of the technique as being too costly, *is that any increased interest cost, is on a minor portion of the debt, and should be more than offset by lower costs on the billions of dollars of normal annual debt operations to come, since the maturity structure will be in better balance, in the light of all the short term financing carried on heretofore.* **Concentration of maturities in a given area is avoided, which would otherwise be reflected in higher interest rates in that area and subsequently spread through the entire range of maturities. The long run costs of carrying the debt therefore tend to be held down.**

In any event, the cost is minor when measured against the advantages of keeping customers for long-term and intermediate bonds, and achieving a significant extension of debt maturities.

For the investor, in brief, the advance refunding has no tax consequences until redemption or sale of the new 3½'s, allowing for additional return without a change of present tax status. *Another consideration* is that the present uncertain economic situation points to a continued pattern of monetary ease, at least in the short-run, which might change in degree but certainly not in direction.

Those who are long-term 2½% bond holders will benefit from the exchange, but many holders of the 62/67 issues will not wish to lock themselves into a longer term issue. Therefore, the advance refunding will be considered "successful" if upwards of 2½ billion is converted.

To sum up, it represents a well thought out and carefully planned operation; it will make at least some dent in the mushrooming short-term marketable public debt by lengthening a portion of it; present market conditions present a timely opportunity to use the technique, which cannot be utilized too often and under too many circumstances.

Advance refunding will not solve the Treasury's problems, but it demonstrates that there is room for new and constructive ideas in debt management and federal financial thinking. Sensible fiscal policies, together with flexible, intelligent and independent monetary policy, are definite requirements for national financial stability and progress. Too often in the past, fiscal, monetary and debt management have been guilty of the old adage that the "left hand doesn't know what the right is doing."

The new advance refunding is a sign that we may be on the road to some effective coordination.

ADVANCE REFUNDING

U.S. TREASURY DEPARTMENT

Offers during period from Sept. 12 to Sept. 20, 1960*

TO ISSUE 3½% TREASURY BONDS IN EXCHANGE FOR OUTSTANDING:

$2,109,187,100 - 2½% Treasury Bonds of 1962-67
2,815,230,500 - 2½% Treasury Bonds of 1963-68
3,737,679,500 - 2½% Treasury Bonds of 6/15/64-69
3,811,488,500 - 2½% Treasury Bonds of 12/15/64-69

DESCRIPTION OF NEW BONDS:

	Date of Issue	Date of Maturity
3½% Treasury Bonds of 1980	Oct. 3, 1960	Nov. 15, 1980
3½% Treasury Bonds of 1990	Feb. 14, 1958	Feb. 15, 1990
3½% Treasury Bonds of 1998	Oct. 3, 1960	Nov. 15, 1998

LIMITATIONS ON EXCHANGES:

2½% Treasury Bonds of 1962-67 - are exchangeable ONLY for 3½% Treasury Bonds of 1980.
Subscriptions will be allotted in full.

2½% Treasury Bonds of 1963-68 - are exchangeable ONLY for 3½% Treasury Bonds of 1990.
Subscriptions subject to allotment.

2½% Treasury Bonds of June 15, 1964-69
2½% Treasury Bonds of Dec. 15, 1964-69 - are exchangeable ONLY for 3½% Treasury Bonds of 1998.
Subscriptions subject to allotment.

Exchanges to be made on the basis of par for par in multiples of $500 and with adjustments of accrued interest to Oct. 3, 1960.

The combined amounts of 3½% Treasury Bonds of 1990 and 3½% Treasury Bonds of 1998 to be issued to the public will be limited to $4,500,000,000, or thereabouts. Exchange subscriptions for these bonds will be received subject to allotment. In addition, exchange subscriptions not to exceed $550,000,000 in the aggregate from Government Investment Accounts to these two issues will be allotted in full.

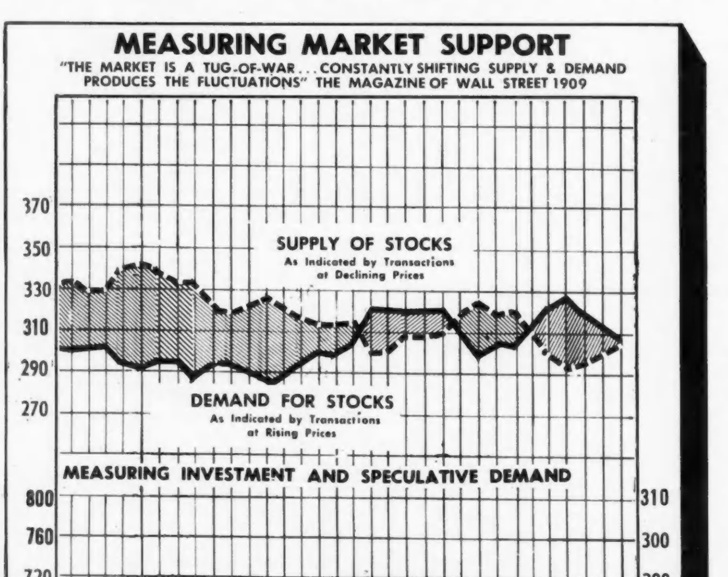
Market Under Increased Pressure

Recent further easing in stock prices reflects the squeeze on corporate profits, growing allowance for business recession ahead, and nervousness over increased cold-war tensions. Basis for a reversion to investment optimism is not in sight. Allow for futher declines. Use any rallies to lighten positions and build up liquid reserves. We repeat our advice of two months ago, i. e., this is the time to take profits on issues you do not wish to hold through a sizable decline.

By A. T. MILLER

With fewer stocks showing ability to buck the trend and more sagging to new lows, the market moved lower again over the past fortnight. As indicated by trading volume, demand remained restricted. Today the industrial average fell to 587, breaking through the triple lows recorded around the 600 level on sell-offs in March, May and July; and is now hovering on the edge of a possible "precipice" as we go to press.

Before slight improvement late in the week, the rail average dipped a fraction under its July 27 low, and thus to the poorest mark in about two years. Even the basically favored utility list reacted on profit taking last week, following a 13% rise from last February into early September.



No Cheer In Business Picture

Hope for autumn improvement in industrial activity, centering in the usual rise in new-model automobile output and resultant steel demand, has been largely watered down. Though we are now well along in September, steel operations remain below 53% of capacity, with new orders disappointing.

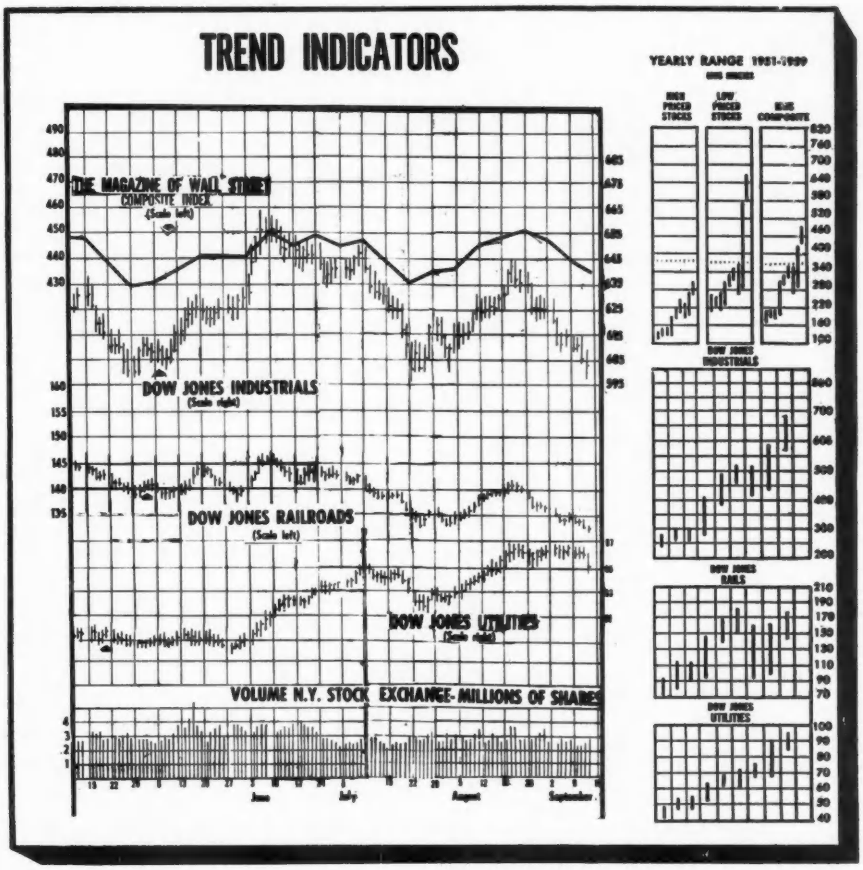
Nowhere in the current business news can investors see much, if anything. to cheer about. Retail trade is sluggish, with reported total store sales appreciably under second-quarter average, but is however equal to the year-earlier level. Extensions of consumer installment credit are lagging. The August rise in personal income was nominal, with salary gains of Government employees. plus those in the service and trade fields. barely offsetting payroll shrinkages in manufacturing and commodity-producing industries. The latest data on employment and unemployment trends were adverse.

More significant as regards future potentials, the principal "lead indicators"—those which usually fall or rise ahead of the Reserve Board's production index—have flattened out or are pointing downward. That is true of manufacturers' new orders for durable goods,—of prices of industrial raw materials, of the average work week in manufacturing,—of factory hiring and lay-off rates,—of housing starts,—of corporate appropriations for new plant and equipment which indicate levelling off in actual outlays and later shrinkage, —and of stock prices which topped last January for industrials, in July, 1959, for rails.

The production index dipped slightly in August and may be little changed for September, if not also for October. The fact that it has held in a range of 168-165 since last January, in a psychological environment of increas-

ing caution, does not mean a great deal. Contributing to seeming stability, industry has been producing to a significant extent against the backlog of earlier bookings. Sales have exceeded new orders for many months. For July the Commerce Department put manufacturers' total unfilled orders at a level $2.8 billion under that of a year ago. There has no doubt been subsequent further shrinkage. So new orders must rise or production must fall.

► Among professional forecasters, majority opinion is that business recession will become clearly visible not later than early in 1961, if not sooner. The concensus is that allowance need not be made for more than another mild and not unduly protracted recession, in line with previous postwar experience. Actually, the outlook is conjectural. Nobody can see very far ahead.



► However, two cautionary observations are in order. First, there is no reason to think that at 587, the industrial average allows adequately for any recession threat. Under present competitive conditions, with operating margins generally narrowed, mild recession would take a heavy toll in earnings.

► Second, there is a question whether, in event of recession, the inevitable Government counteraction would be as effective in degree and time as were the moves against the earlier postwar recessions. The previous shortages have all been more than made up. Surplus is the general rule in consumer goods, in capital goods, in plant capacity, in raw materials, in the supply of labor.

► Keep in mind that Government action against recessions has been more a matter of stimulating private spending through creating "inflation sentiment" than of the direct effects of increased Federal outlays. When business finds selling hard, prices easy, it becomes harder to whip up inflation sentiment. Remember that the New Deal monetary inflation before the war had limited effects on sentiment and commodity prices. In recent years we have had mainly cost-push price inflation. The forces now at work have slowed it to near the motionless point.

► As regards stimulation from Federal Reserve easy-money policy, there are two points to note: (1) Business demand for credit is determined primarily by profit prospects, with variations in interest costs no big factor. "You can lead a horse to water, but not make him drink." And (2) the Reserve Board in our present world situation does not have full freedom in monetary management. Our Treasury gold holdings have fallen below $19 billion to the lowest level in 20 years, and are exceeded by foreign claims against the dollar. High interest rates abroad, against lower rates here, draw gold outward.

Beyond this, a reckless or too New-Dealish fiscal policy under the next Administration, could raise the threat of a real foreign run on U. S. gold and a monetary crisis via impaired confidence in the dollar. Meanwhile, we are hearing generalities from the Presidential candidates, a minimum of real discussion of what to do about real problems.

The Sag In Profits

In industry and trade, the continuing general rule is: "sales up from a year ago, profits down." First-half earnings on the Dow industrial average were at an annual rate of $34.44 "per-share," against $39.76 in the like 1959 period. For the full year they may be little above 1959's $34.31. On this basis the average is priced at over 17 times earnings. The latter were at $35.78 as far back as 1955, in which year the maximum price-earnings ratio was 13.5.

As regards international affairs, the only certainty is that the Communists will do their best to make the most possible trouble for us wherever there is opportunity anywhere in the world, including the U. N. Assembly at this writing—and quite possibly another Berlin crisis before long. A cautious, conservative investment policy remains advisable.

—Monday, September 19.

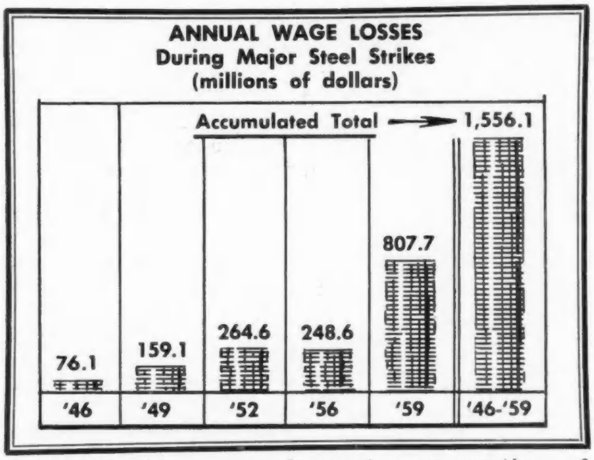
DANGERS TO OUR FREEDOM IN LABOR'S MONOPOLY POWER

By McLELLAN SMITH

- **The strike against a single contractor that was expanded by the unions to produce work stoppage on our extremely important missile program at Cape Canaveral**
- **The Pennsylvania R.R. strike that affected 30 million people in 12 states —producing hardship and severe financial loss on the say-so of a single labor boss — Mike Quill**
- **This on top of the steel strike last year which ran for months — upsetting the lives of many thousands of people**
- **How the labor autocracy was created — the urgent need to curb it today — what steps we should take**

AS this article moved through the author's typewriter, a 12-day shut-down of the nation's largest rail carrier—the Pennsylvania—was coming to an end; an expensive stoppage that was of value to no one, but costly to many, many hundreds of thousands who were in no way parties to the dispute. Perhaps as many as 30 million people in 12 states and the District of Columbia—all directly served by the Pennsylvania—experienced economic damage as well as a great deal of inconvenience occasioned by delayed mails, personal transportation, merchandise, and raw materials vital to the nation's economy. Defense industries were harmed as well as the daily run of interstate commerce.

No accurate estimate of the economic damage is as yet available, but it runs to far more than the $2.5 million daily revenue lost by the carrier, plus the $1.25 million daily wage losses sustained by the 20,000 strikers and the 52,000 other employees not directly involved, but furloughed without pay. Through a cockeyed piece of legislation on the Federal statute books, both strikers and furloughed



employees drew unemployment compensation of around $51 a week! *Uncle Sam, through his power to tax and the "generosity" of our social welfare legislation, picked up the tab for both strikers and laid-off employees!*

Labor Exempt from Conspiracy Statutes

This stoppage exemplifies a problem of grave proportions—a problem created by a Congress, assorted politicians and even the Supreme Court—all of whom have said, in effect, that organized labor "can do no wrong." Congress has enected the liberal National Labor Relations (Taft-Hartley) Act; the Norris-LaGuardia Act which exempted labor unions from action under the Anti-Trust statutes, barring Federal prosecution for conspiracy in the field of interstate commerce. Test cases taken to the Supreme Court have brought rulings which held that organized labor is "free of sin."

In the Pennsylvania strike, both a neutral referee and a Presidential Fact Finding Board examined the issues (none involving a wage increase) and made settlement recommendations accepted by the railroad but rejected by the union. Even the carrier's willingness to submit the disputes to compulsory and binding arbitration was rejected by the union. Why? *For the simple reason that union demonds could not stand up under such arbitration. The union wished to dictate to management in areas that are solely management functions.*

Curious Lack of Interest by Political Candidates

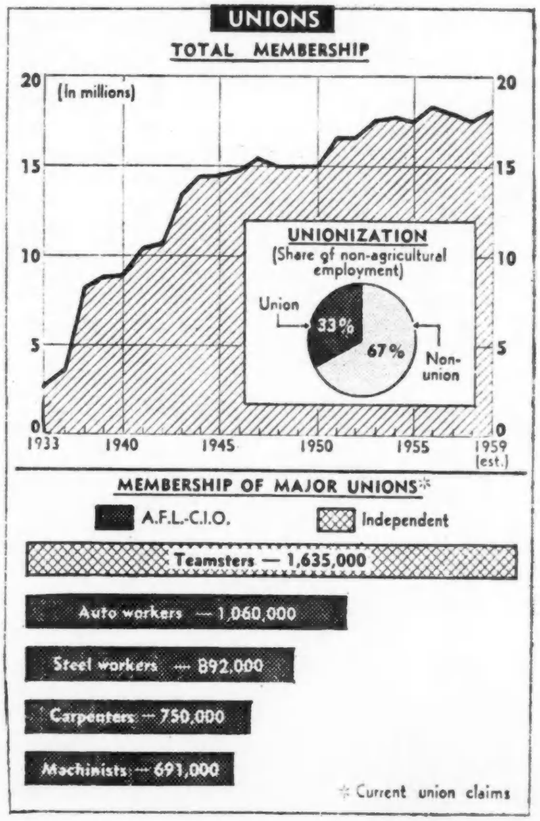
Distressing to the writer, and to all who realize that public convenience and necessity should be paramount to the wishes and desires of a labor minority, is the indifference of candidates for public office upon this question. As of this moment, not a candidate for national office—Congress, Senate or the White House, has "spoken out" on the Pennsylvania strike. Mayors and governors of the affected areas have filed pleas with the union—and the railroad—and with their Congressmen, but not one of them has suggested to the White House that it intervene under statutes that provide stiff criminal penalties for interfering with the mails—and the Pennsylvania embroglio has done exactly that. Back in 1894, a Democratic President—Grover Cleveland—used troops to bring an end to union interference with the mails in the bloody Pullman strike in Chicago. The "New Dealers" of those days condemned Cleveland, but the mails "went through."

It has been little more than a decade ago that a nation-wide railroad strike threatened the national economy and the national defense. President Truman, although beholden to organized labor for much of his support, had the intestinal fortitude to go before Congress—after a two-day railroad tie-up—and demand that the strikers be drafted into the Army. The House "whooped through" a Truman measure to effect this plan in a matter of two hours, but the rail union workers, realizing that they had gone too far with their monopoly power, voted to go back to work before the House-passed bill could reach the Senate.

Strike Shuts Down Missile Production

Reverting to the writer's statement that the Pennsylvania strike was harmful to defense industries, he would also cite a union tie-up of our missile program, already presumably well behind that of the Russians. The International Associotion of Machinists (IAM), an affiliate of the AFL-CIO, *had a dispute with a single missile contractor,* Convair, then doing work at the Cape Canaveral, Fla., missile base. **The IAM picketed, not only Convair, but the gates of every other contractor working at Cape Canaveral. This action brought about work stoppages of every contractor on the base, thus closing down a defense program of supreme importance.**

Fortunately, a U.S. District Court enjoined the IAM. Nevertheless, our lagging missile program suffered a definite set-back. Perhaps it was not quite treason on the part of the IAM (within the narrow



Constitutional definition), but it certainly gave "aid and comfort" to an openly avowed enemy in the race for military, ideological and military supremacy.

Necessity for Legislation

Out of the Pennsylvania and Convair strikes some good may come—the recognition that the monopoly power of labor is a threat to the national welfare and defense, that strict legislation to control or curb such power must be paramount to the right of an individual, or individuals working in concert, to hamstring the economy and the defense of the Nation.

In brief, we possibly need legislation to bring about compulsory and binding arbitration in labor-management disputes threatening the public convenience ond necessity, the basic economy of the nation or, above all, our national defense. Such legislation could eventually lead to wage and price controls—socialism in the final form—but the lawmakers of the country have built the Frankenstein monster that is labor monopoly power today.

They must now somehow rewrite the laws in the public interest. Open to them is a choice between the compulsory and binding arbitration course or repeal of the laws which have given power-hungry labor bosses and their slavish followers the ability to throttle the Nation.

If one will but review organized labor's attitude, he will find it totally devoid of regard for the majority—completely stacked in favor of the personal interests of the minority, never of the greater number.

The Double Standard for Labor and Business

What labor wants to do is sacrosanct; what labor does is above reproach; what business or the man in the street may do to counteract this baneful influence is the "evil machinations" of big business. Consider the recent campaign of Sen. Estes Kefauver, Democrat, for renomination in Tennessee.

The Senator charges—without documentation—that the manufacturing pharmaceutical industry poured "uncounted thousands of dollars" into the campaign to assure his defeat. *Contrary to this unproven charge, organized labor, through its official publications, boasts of the fact that it poured millions of man hours and uncounted dollars into the Tennessee primary election to assure Sen. Kefauver's return to Capitol Hill.*

If it is morally improper for business to exercise its Constitutional right of free speech to defeat a candidate for the United States Senate why is it not equally immoral for the forces of organized labor to pour their time and money into assuring his return? There is no difference, but the picture—as painted by organized labor—puts a halo about the head of labor, a forked tail upon the forces of business.

Organized labor is around 16 million, about one-fourth the national labor force, and less than one-tenth the present population. Yet, through biased legislation, court decisions and the national legislators' fears of the organized minority, the 16 million membership, led by power-hungry chieftains, can completely paralyze our economy and our defenses. Although the indictment is damning, those chieftains of labor are perfectly willing to go to dangerous extremes in their lust for political power. The Canaveral and Pennsylvania strikes are but two instances. Many more could be cited—space limitations do not permit.

How Labor's Monopoly Power Came About

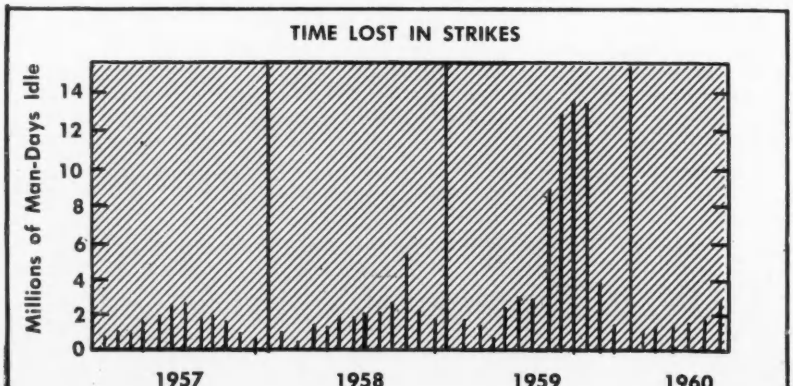
We would now turn back the pages of History for a review of labor's monopoly power growth.

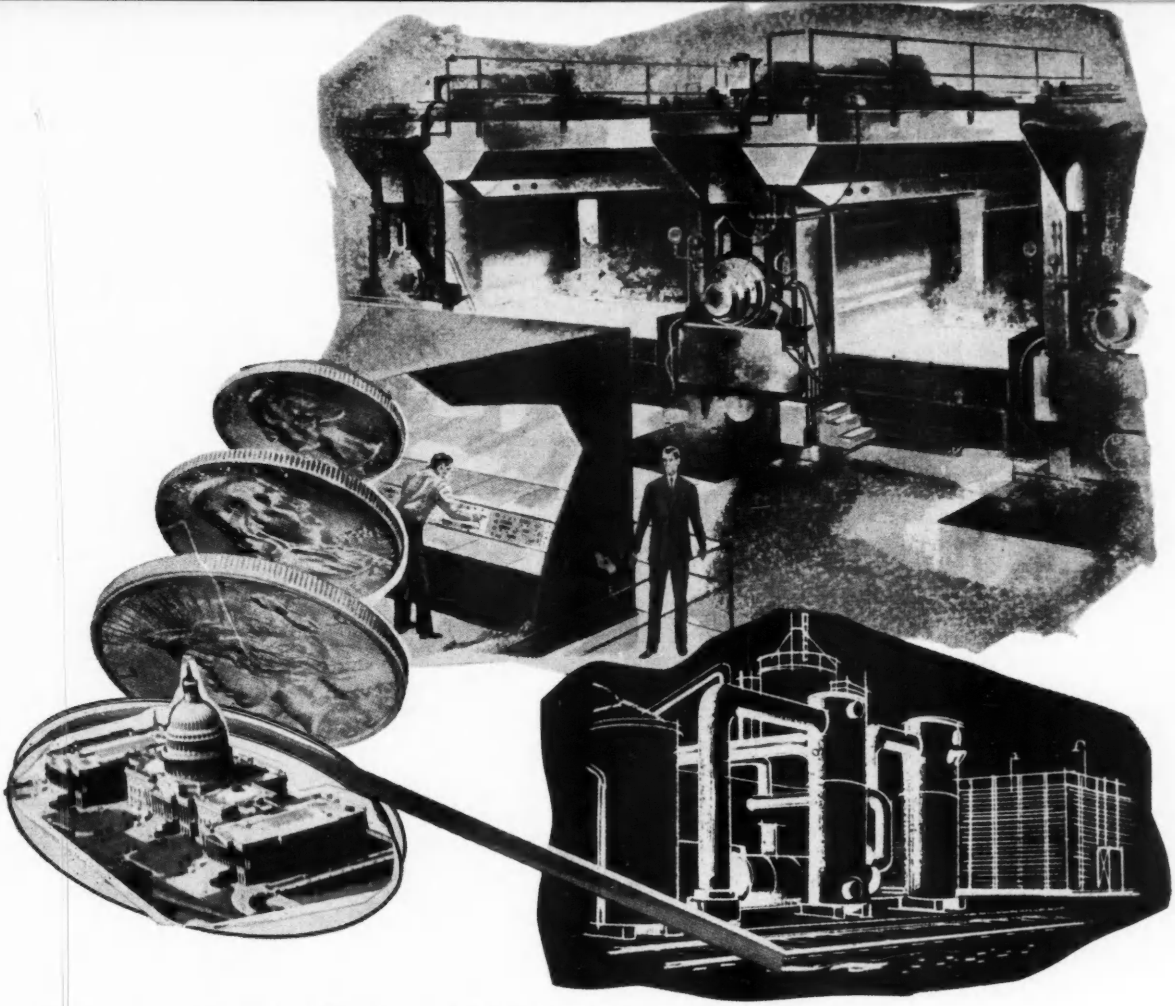
► In 1926 Congress passed the Railway Labor Act. Although limited to rail transportation, it opened new and enticing vistas for organized labor. The principle of collective bargaining was established.

► Five years later, the first Federal wage-fixing law was adopted. Known as the Davis-Bacon Act—a depression-born measure—it permitted the Secretary of Labor to set wage rates in the construction of public works financed by the Federal government. It is still on the books, possibly accounting for some of the unreasonable labor costs in highway construction, currently the government's largest public works program.

► In 1932 Congress gave organized labor one of its greatest power tools—the Norris-LaGuardia Act—which virtually stopped the Federal Courts from granting injunctions against strikes, picketing, and boycotts in labor-management disputes inimical to interstate commerce and the national safety. The Act prevented employers from demanding that employees refrain from union membership (now compulsory under the union shop clause of the Taft-Hartley Act), but the Act did nothing to stop unions from forcing employees to join under penalty of starvation. The Norris-LaGuordia Act was the earliest of legal double-standards putting the Federal government officially on the union side as opposed to business.

► By 1935 organized labor reached a new power peak—the Wagner Act; under this law Uncle Sam guaranteed collective bargaining and the closed shop in virtually every industry. Unions could charge management with unfair *(Please turn to page 51)*





Important Industrial Companies . . .

WHERE CASH FLOW PROFITS GREATLY ENHANCE EARNINGS PICTURE

— And improve working capital position

By WARD GATES

- **How total depreciation charge-offs, when added to net income, equalled all capital spending in U.S.A. last year**
- **Why investors must watch cash flow to gauge values — to avoid selling the wrong stocks — and in buying the right ones**
- **Companies with top managements that have strengthened their current earnings position by cash flow profits — and capital expenditures that have laid the foundation for higher earnings in the future**

ONE of the few truly encouraging aspects in the present somewhat drab economic picture is the fact that corporations are actually taking in a great deal more money than shows up in their abbreviated income statements. In fact, the spotty and sometimes disappointing net income record of the entire past decade takes on a decidedly brighter hue when one looks closely at corporate cash earnings rather than just the net earnings as reported in the financial press.

Corporations, in most cases, actually generate much more cash for use in the business than can be determined by a glance at the income statement. The reason is simple. The law allows companies to deduct the annual wear and tear on machinery and equipment, as well as the depletion of natural resources, from their operating profits. Since these items are expenses, but not actual cash outlays, they

have the effect of reducing reported net income and thus lowering corporate income taxes. Net result: more cash for use in the business.

Significance of Corporate "Cash Flow"

Lest anyone dispute the significance of cash flows as an economic force, it should be pointed out that the sums corporations set aside last year for depreciation, depletion and amortization, when added to net income, were sufficient to account for all of the capital spending in this country, with enough left over to bolster working capital positions.

In brief, these reserves have become the single most important source of corporate capital financing. As such, they have exercised a direct impact upon the securities markets by holding down the amount of new financing necessary through stock and bond issues; perhaps more importantly they have contributed so strongly to corporate liquidity that domestic companies have become enormous holders of Treasury notes and bills. This shift from bank ownership to corporate ownership of Treasury obligations has actually placed limits on the ability of the Federal Reserve to exercise complete control over money market conditions.

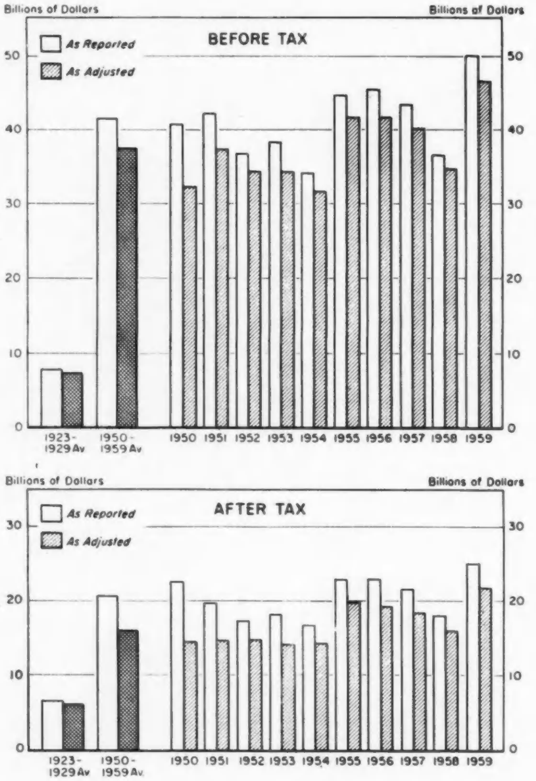
Whether this is good or bad for the nation as a whole is essentially a political argument, but those companies that have been astute enough to get the government indirectly to finance half of their capital spending programs have certainly been benefited. For it is capital expenditures that produce growing depreciation reserves to write off the new plants and equipment; and every dollar that can be charged to depreciation is a dollar not subject to the 52% corporate tax rate.

For investors seeking to analyze cash flow and its significance, the simplest approach is to view cash earnings as the total earnings a corporation actually generates from its operations. Deduct dividend payments, and the net result is the amount of money actually plowed back into the business to create new earnings in the future. Whether this process is worthwhile or not depends, of course, on how efficiently the corporation uses its invested capital. If, for example, a corporation earns only three or four percent on its net equity, stockholders would be better off receiving all of the cash earnings as dividends and reinvesting them on their own to obtain a higher return. But the corporation can usually do a better job than the individual stockholder.

International Business Machines, to cite just one example, has averaged a return of over 17 percent upon its capital for the last ten years. Each new dollar plowed back likewise earns 17¢—a condition which will double earnings in less than six years. Obviously IBM's stockholders can afford to allow the company to retain capital and let it compound itself.

This brief technical discussion should make it clear that cash earnings are more than just words. Rather they are fast becoming the single most important determinant of corporate well-being, since depreciation reserves now exceed net income by a wide margin.

Corporate Profits as Reported and as Adjusted to a Comparable Basis *



*—*Adjusted profits are after adjustment for inadequate depreciation, non-recurring inventory profits, etc.*

The Importance of Capital Spending Figures

Since depreciation and cash earnings are closely tied to the level of capital spending, this vital economic force now takes on even greater importance. For if capital spending slows down it means that sometime in the future corporations will have smaller depreciation reserves and hence smaller sums to plow back into new earning assets.

Liberal depreciation policies are especially vital today, when capital spending is showing signs of tapering off. At the beginning of the year the government estimated that capital outlays would come to $37 billion in 1960 and would be running at a $38 billion rate toward the year-end. Instead, the figure has been revised steadily downward to little more than $36 billion for the year, and an even slower rate by the last quarter. **This means specifically that over the next five years some corporations will have less money to disburse in dividends and less to plow back, even though their net income figures may appear satisfactory.**

For this reason, it is wise to look at the cash earnings picture for key corporations both to see what their past capital outlays have contributed to current cash earnings and to get some idea of what future cash earnings will be, by comparing current outlays with cash earnings.

Some Examples

In the accompanying table are listed 27 major domestic corporations and the statistics necessary

Capital Expenditures and Cash Earnings of 27 Companies

	Net Sales 1958 (Millions)	Net Sales 1959 (Millions)	1958 Net Earnings Per Share	1958 Cash Earnings Per Share	1959 Net Earnings Per Share	1959 Cash Earnings Per Share	Capital Expenditures 3 Year Total 1957 to 1959 (Millions)	Net Fixed Assets as of 12/31/59 (Millions)	Ratio of Capital Expenditures to the Allowance For Depreciation for 1959	Div. Per Share	Recent Price	Div. Yield
Air Reduction	$175.3	$200.6	$3.44	$5.55	$3.79	$6.18	$ 82.6	$148.8	334	$2.50	66	3.7%
Allied Chemical	635.5	719.6	1.72	3.74	2.51	5.28	169.2	469.7	74	1.80	56	3.2
American Home Products	374.9	420.8	5.53	5.97	6.05	6.57	37.2	57.9	3.15	4.30	187	2.3
Bestwall Gypsum	34.0	39.4	2.23	2.84	2.40	3.06	9.9	19.3	530	[1]	39	—
Brunswick Corp.	187.8	275.1	2.04	2.44	3.42	3.73	18.6	22.1	473	.60	69	.8
Corning Glass	159.1	204.8	2.52	3.74	3.57	4.85	47.5	57.6	164	2.00	168	1.1
Eastman Kodak	828.8	914.1	2.57	3.62	3.24	4.33	170.9	305.7	143	1.80	124	1.4
General Foods	1,135.4	1,167.1	2.21	2.77	2.48	3.10	85.8	147.8	250	1.40	69	2.0
International Bus. Mach.	1,171.7	1,309.7	6.93	16.63	7.97	19.17	855.8	762.7	126	3.00	545	.5
International Harvester	1,098.3	1,363.1	2.69	5.90	5.10	8.47	127.6	321.5	80	2.40	42	5.7
Johns-Manville Co.	331.7	377.5	2.82	4.72	3.73	5.71	127.0	158.5	91	2.00	52	3.8
Jones & Laughlin Steel	654.0	765.6	2.79	9.13	3.58	9.89	195.9	516.4	103	2.50	63	3.9
Minneapolis-Honeywell	328.4	381.4	3.23	4.54	4.20	5.73	55.8	75.6	155	2.00	158	1.1
Parke, Davis & Co.	172.5	191.5	1.89	2.12	2.09	2.36	36.7	56.1	426	1.40	42	3.3
Pfizer (Chas.) & Co.	222.7	253.6	1.48	1.86	1.51	1.95	73.1	97.7	420	.80	31	2.5
Pittsburgh Plate Glass	513.6	606.9	3.24	6.49	4.36	7.71	146.6	333.3	125	2.20	60	3.6
Polaroid Corp.	65.2	89.9	1.86	2.28	2.78	3.36	14.6	13.4	313	.20	248	.08
Pullman	354.5	399.9	1.82	2.81	2.94	4.07	18.5	37.5	153	2.00	33	6.0
Procter & Gamble	1,295.1	1,368.5	3.55	4.53	3.95	5.03	169.9	368.9	161	2.60	127	2.0
Radio Corp. of America	1,170.6	1,388.4	2.01	3.90	2.59	4.46	103.6	210.2	183	1.00[2]	60	1.6
Raytheon Co.	375.1	494.2	3.08	4.10	3.89	5.22	20.1	26.1	215	[3]	39	—
Reynolds (R. J.) Tobacco	1,146.5	1,286.8	3.80	4.23	4.45	4.95	73.4	94.3	293	2.60	78	3.3
Robertshaw-Fulton Con.	68.7	79.4	2.40	3.70	3.35	4.72	9.5	16.5	169	1.50	39	3.5
Texaco	2,327.9	2,678.0	5.24	9.89	5.85	10.48	1,415.6	2,028.8	326	2.80	76	3.6
Texas Instruments	91.9	193.2	1.84	3.35	3.59	5.68	35.1	40.7	244	—	201	—
U. S. Rubber	870.6	976.7	3.05	8.26	5.30	10.46	88.6	184.9	102	2.20	49	4.4
Westinghouse Electric	1,895.7	1,910.7	2.13	3.56	2.43	3.82	170.2	336.2	97	1.20	52	2.3

1—3% in stock. 2—Plus stock. 3—5% in stock.

to provide some insight into the future. **Allied Chemical**, for example, has spent over $169 million on capital improvement in just the last three years. The depreciation charges generated brought in cash earnings of $5.28 per share compared with net income of only $2.51 in 1959.

Even more significant is the fact that the funds generated from depreciation alone last year more than covered all of the year's capital outlays. The table, in fact, shows that last year's capital expenditures were only 74 percent of the giant chemical company's depreciation figures.

In effect, Allied's past capital spending is now paying the full bill for current outlays. However, there is a drawback in this picture. *Allied's capital spending rate is now obviously slowing down, so that in future years depreciation, charge-offs will begin to drop, cutting down cash earnings.*

By contrast, **Texas Instruments,** with a well deserved reputation as a growth stock, laid out capital last year at a rate 244 percent higher than its depreciation charge-offs. Thus, the company continues its rapid pace of asset growth which has been the key to its success.

In the last three years Texas Instruments has plowed $35.1 million into new assets. These facilities are so new and so huge that they account for by far the largest portion of the company's total fixed assets of $40.7 million. Texas Instruments is enjoying a generous return upon these outlays. *The return on investment has averaged 18 percent for the last five years, but in 1959 the figure jumped to almost 25 percent.*

Although a few stockholders might prefer to sacrifice some of this growth for dividends, it is clear that the company is using the money it is withholding from stockholders in a highly efficient and profitable manner. A mere glance at its earnings growth is sufficient evidence.

But fast as the company's earnings growth has been, the growth of cash earnings has been even more rapid. In 1954 the total cash actually generated from operations amounted to 78¢ per share. Five years later the figure was $5.68 per share, and will probably climb to about $7.25 in 1960. *Texas Instruments is still a relatively small company, but the difference between the cash earnings and reported net income of $3.59 per share nevertheless comes to over $8 million.*

In other cases the magnitudes are more startling. **Jones & Laughlin Steel,** engaged in a major capital expansion program for several years, has spent almost $200 million on new plants and equipment in the last three years alone. Besides upgrading and modernizing the company's productive facilities, this expansion raised cash earnings to $9.89 per share in 1959 compared with reported earnings of only $3.58. This means that although Jones & Laughlin announced net earnings of about $21.4 million, operations last year actually netted over $59 million for the paying of dividends *and* for use in the business.

With such a wide discrepancy between these figures, it is apparent that Jones & Laughlin is much better off than appears true from first glance at its earnings statement. The reported per share net was more than enough to pay the $2.50 annual dividend, while the cash generated from depreciation virtually covered all capital outlays *(Please turn to page 52)*

Of significance to stockholders . . .

A New and Up-to-Date Revealing Study of "INSIDER" TRANSACTIONS

By ROBERT B. SHAW

► **Covering transactions by officers of individual companies in a number of industries — and where it has any special meaning as to the outlook for the price of the shares**

INSIDER sales during May, June and July of 1960 maintained the high level established in the spring and in June reached a peak of 194,444 shares for the two hundred companies covered in these studies, a point only slightly below the record high of 202,950 shares for February. Purchases held close to 35 000 shares for each of these three months, an increase over the April distribution of 20,080 shares, but otherwise a narrow reduction from the first quarter level. Because of the extreme volatility of insider transactions on both sides and the absence of a longer record it is difficult to speak of a "normal" relationship between sales and purchases, but it is clear that corporate executives were, in the period covered, much more interested in reducing holdings of their own companies than in adding to them. This conclusion is reinforced, aside from the comparison of aggregate sales and purchases, by the substantial predominance of sales among individual transactions.

Specifically, in June insiders effected net reductions of stockholdings in 66 of the 200 companies, vs. 22 increases. For July the respective figures were 48 and 28. *This data is far from indicating any concerted desire on the part of corporate insiders to reduce their holdings sharply but it does suggest that*

early market appreciation is not generally expected.

Source of Insider Data

Insider transactions are the dealings in the stock of their own companies on the part of officers, directors and principal stockholders already controlling 10% or more of any equity issue. To prevent the type of abuse that occasionally occurred back in the 20's, the Securities Exchange Act of 1934 requires that all such transactions must be reported monthly to the Securities Exchange Commission (SEC). The latter organization in turn publishes this data in its **Official Summary,** available by subscription from the Superintendent of Documents at Washington, D. C.

But the reports on insider purchases and sales by themselves carry little meaning unless arranged in consecutive fashion, and expressed in terms of a constant sample that can be compared with itself for different periods. To give the unorganized data some significance, an index of 200 of the country's principal manufacturing companies has been established and transactions are counted for this group only. (Prior to the beginning of the present year only 100 companies were covered).

The accompanying chart shows aggregate sales and purchases for these companies over a period of two years. It should be noted that sales almost invariably exceed purchases. This is because insiders often acquire stock by inheritance, purchases under option, and bonuses, as well as by regular purchase on the market. Accordingly, no bearish conclusions based merely on the predominance of sales over purchases should be drawn, but changes in the usual relationship, observed in the light of other conditions, may give some useful insight into executives' appraisal of current values.

Substantial Insider Net Sales *
May through July, 1960

	Shares Sold *
Avco	13,700
Brunswick Corp.	12,100
Burlington Industries	12,300
Coca-Cola	27,050
Collins Radio	14,390
Continental Can	12,770
Fruehauf Trailer	17,850
General Dynamics	29,440
General Electric	17,430
Hercules Powder	10,200
Merck	9,000
Minnesota Mining	43,530
Monsanto Chemical	7,000
NAFI Corp.	15,900
Procter & Gamble	15,570
Thiokol	13,200
Varian Associaties	9,050
Westinghouse Electric	8,214

* Sales shown are net of purchases which, in some cases, have been made within the same period. Shares purchased under option or received as executive compensation are, however, excluded from the computation.

Caution Essential in Interpretation

It is fair to assume that the major motivation for insider purchases or sales is the belief that the shares in question are more or less attractive. This is by no means, however, the sole reason for such transactions, and it must be recognized that stockholding is a more complex process for most insiders than for outside stockholders whose investment incentives are unmixed with sentiment or personal considerations. Insiders may conceivably buy stock merely to solidify control; contrarily, they may sell it to effect diversification of their personal estates. Recurring large secondary distributions on the part of insiders with concentrated holdings have been a familiar market phenomenon of recent years. But even when purchase or sale is initiated for reasons other than investment judgment, the timing of such transactions is likely to reflect the originator's opinion of company opportunities or market conditions.

Occasional large transactions which would distort our insider index by lifting the lines far out of the graph have been omitted from the compilation. A prominent example of such transactions would be the **Ford Foundation's** record-breaking distribution of the motor manufacturer's stock. In the period under present review, May to July inclusive, total purchases of 206,300 shares of **Union Oil of California** by **Phillips Petroleum** have also been omitted from the table. After these purchases Phillips held 1,159,000 shares, or 14% ownership, in Union Oil. A buying program of this character obviously has somewhat specialized motives.

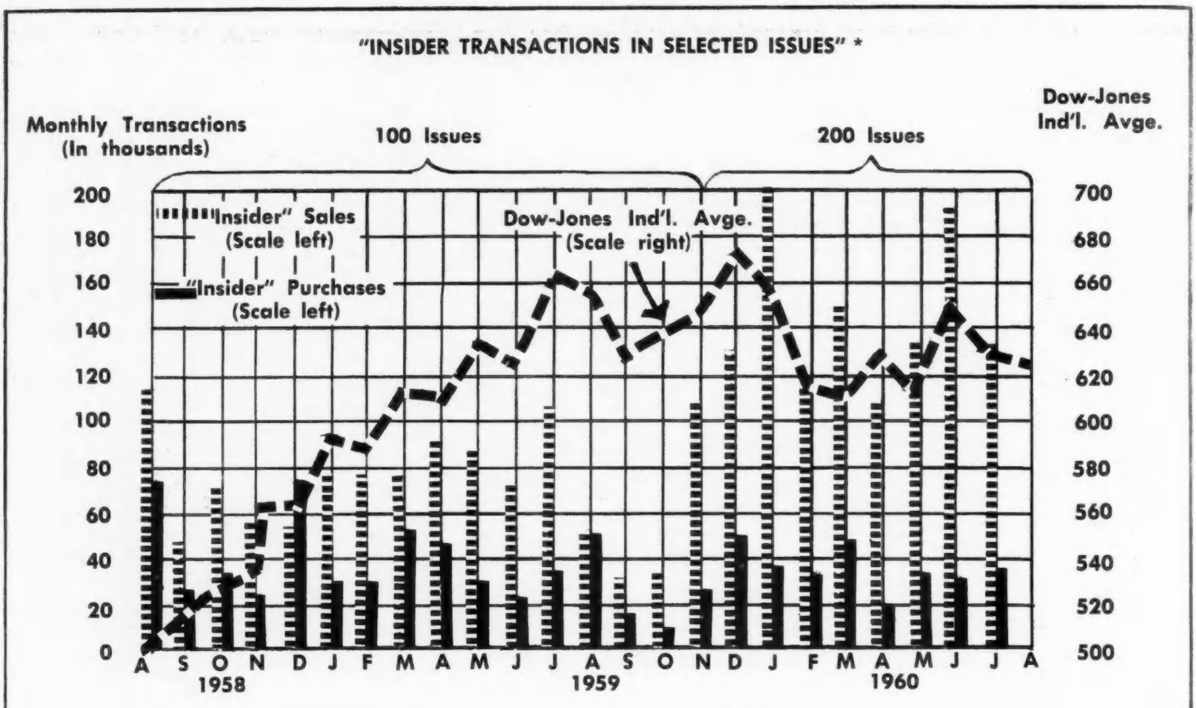
It is also possible that some companies discourage insider transactions, or perhaps their officers and directors lack trading inclinations. In the period of two years during which this index has been compiled no insider transaction for **Singer Mfg.** has ever been observed, and very few for **Eastman Kodak.** On the other hand, such companies as **American Motors** and **Fruehauf Trailer** experience rather constant insider transactions in their stock.

Declining Prices Have Not Impressed Insiders

Aside from the peak volume of insider sales in June, unloading of their own stocks on the part of executives and directors in recent months has been steady rather than progressive. (The lower July figure may, however, later be expanded by "late reporting,' another of the handicaps in analyzing this data.) Similarly, purchases have by no means dried up but continue pretty nearly in "normal" volume. This experience should be related, however, to external circumstances, and specifically to the level of stock prices. Since the end of the year, for the first time in over ten years, stocks have followed a rather extended downward trend. Whether or not as a result of this, insider sales have shown some acceleration during this period. Purchases, however, if they have held steady have certainly not picked up. In brief, insiders have apparently not regarded their own stocks as bargains even at prices 10% to 40% below year-end levels. We are speaking here, of course, in terms of broad generalities; but the picture suggests at least a mild bearishness on the part of corporate insiders.

About Stock Options

Before we enter the firmer ground of transactions in individual stocks a brief digression will be made into the subject of purchases under stock options.



Stock transactions by Officers, Directors and Principal Stockholders in Largest Industrial Companies. (100 companies included from August, 1958 througgh November, 1959 and 200 thereafter.) Certain large transactions which would have distorted comparability are omitted from these compilations.

Corporations are sensitive to any suggestions that their officers are "unloading" their stock, and several remonstrances have been received on statements in previous articles in this series. One difference has arisen over the treatment of purchases under stock option. Such acquisitions have not been regarded as ordinary purchases nor reflected in the tables and graphs depicting insider transactions. Frequently, however, a heavy volume of insider selling has coincided with purchases under option or the distribution of stock as executive bonuses. This was the case, for example, with **General Electric, Westinghouse Electric, Minneapolis Honeywell Regulator** and other companies in June and July. Inclusion of option purchases would frequently show a net balance of insider buying for such companies, whereas their actual disregard has indicated a selling position.

Options are frequently granted at prices ranging from 85% to 100% of value, although stockholder representative Lewis Gilbert pushes for full market value, to be exercised within three to eight years. If the stock goes up, which has been the normal expectation in the post-war era, the executive will exercise his option. It is understandable that this may increase his holdings in his own company beyond what he can afford or desires, and hence he will sell some of his stock simultaneously. *Nevertheless, the decision to exercise the option reflects essentially the past successes of the company rather than its future prospects.*

If future prospects were unusually attractive the officer would try to retain all of his stock, even if he had to borrow against it to do so.

For these reasons it is felt that purchases under option should not be given the same weight as ordinary purchases on the market, and that the divestment of stock simultaneously with option purchases is negative rather than merely neutral.

Selling in Electrical Equiments

Let's look now at individual issues. The two electrical equipment giants, **General Electric,** and **Westinghouse,** each showed a marked predominance of sales during the May-July period. For General Electric 8970 insider shares were sold in May, 7130 in June and 11,240 in July. Comparable figures for Westinghouse were 2860, 9840 and 3200 shares respectively. For both of these companies this marked the continuation of an insider selling trend that had already persisted for some months. It must be pointed out, however, that insider **purchases** of some proportions were also made in both companies in June. In addition, substantial option purchases were made in the stock of both companies but are not, for the reasons given above, reflected in the accompanying graph.

Other electric companies showed more spasmodic results. Small insider sales in **Raytheon** for several months were followed by a larger distribution of 6000 shares on the part of Vice President Percy L. Spender, in July. **Robertshaw Fulton** also came in for sales of 3000 shares by Director John S. Robertshaw in the same month; this succeeded smaller insider sales for a number of months, with no countervailing purchases. The **Philco** Profit Sharing Plan unloaded 1350 shares of its own company in July

(but still holds 428,000); here the pattern has also been similar to that for Robertshaw. Transactions of either character have, however, been entirely absent for **Sunbeam Electric,** while **Square D** figures in the record only by virtue of insider purchases of 1480 shares in June.

In a slightly different field, **Minneapolis-Honeywell** has shown a definite trend of insider sales, not usually large but without any offsetting purchases, for many months. Heaviest sales were in July, when 2400 shares were lightened by Director Richard P. Brown. Minneapolis has enjoyed an excellent performance recently, but at such a high multiple of earnings some of the insiders may have considered it well advised to ease up on holdings of this electronics and instruments manufacturer.

Slight Uneasiness Among the Drugs

While insider selling was fairly heavy in the period under review it did not, on the whole, follow industry lines, and this makes it difficult to organize the discussion under industry headings. A mildly negative attitude was apparent, however, among the drug group. In the ethical end 5000 shares of **Pfizer** were unloaded in June by Director George A. Anderson, still leaving him with 317,000 shares. No insider purchases of Pfizer have appeared for many months. **Merck** has been even more definitely affected by the same tendency, with heavy consecutive insider sales for many months. These have been on the part of many officers and directors, although most heavily in behalf of the Rosengarten Estate.

Among the proprietaries, **Procter & Gamble** has been heavily sold for many months, rather surprisingly in view of its recent Crest toothpaste success. **Gillette Razor** has also shown a consistent pattern of insider sales for a number of months, and in an isolated transaction Director Edward Little reduced his holdings of **Colgate** by 10,000 shares in July.

Some "Success Companies" Lightened

As a matter of fact, the inclination of insiders to lighten their holdings even affected some of the most outstandingly successful companies of the recent past. **Minnesota Mining** has been heavily sold by its officers all year; this pattern reached its crescendo in June, when no less than 39,630 shares were unloaded. This selling was general, although the bulk of it, 30,000 shares, was in behalf of Director William L. McKnight. As Mr. McKnight retained 2,743,000 shares, he was hardly liquidating his interest in the company. Could the insiders have felt that the recent 3-1 split offered a favorable occasion for taking some profits upon their very successful commitments?

Corporate insiders have also been selling stock of **Brunswick Corporation** steadily for many months, without any contrary inclination being evidenced until July, when Director Edmund A. Stephan added 2000 shares to his existing holding of like amount. And even **International Business Machines** has been sold consistently since April, although not in unusually heavy volume. Insider selling has also been heavy in the case of **Coca-Cola,** as well as in general on the part of many officers.

Other glamour issues being sold rather consistently by their executives in the May-July period include **Collins Radio, Thiokol, Varian Associates** and **Nafi.**

Other Issues Being Sold by Insiders

Among other issues being lightened by insiders are **Armour** (4520 shares sold in June and July), **Avco** (14,700 shares in June and July) and **Burlington Industries,** the latter continuing a trend already going on for many months. **Continental Can,** with sales increasing to 11,070 shares in July, has shown considerable unpopularity with its own executives, a feeling which was not shared with **American Can. Owen-Illinois,** however, has shown a milder insider selling tendency.

Director Paul Achilles sold 8000 shares of **Eastman Kodak** in June; this was one of the very infrequent insider transactions for this company. **Ford** was sold in June and July. and in the latter month Director Herman Kahn of **Fruehauf Trailer** eliminated 15,000 shares. Insider selling was also visible in respect to **Mack Trucks, Thompson Ramo** and in the aircraft sector in **General Dynamics** and **Lockheed.** Insiders have also cut their holdings in **Studebaker-Packard** sharply.

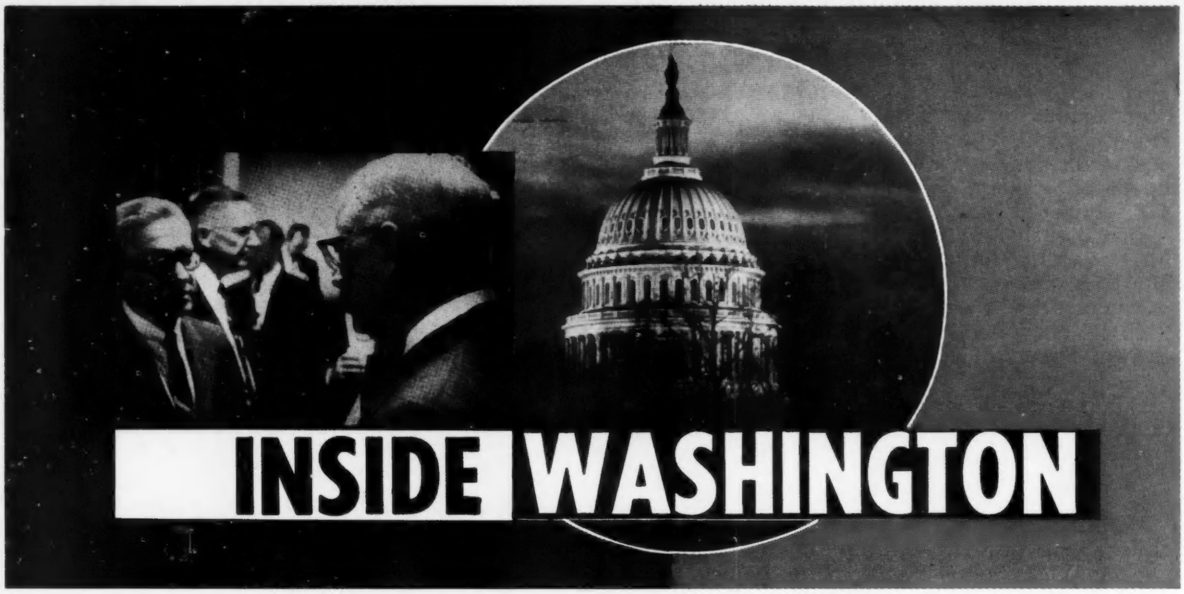
Among building stocks **Flintkote** and **United States Plywood** have recently been lightened by insiders. **Kaiser Aluminum** has been rather consistently sold for some months, while **Hercules Powder** and **Monsanto** have shown a similar tendency among the chemicals. An isolated sale of 5800 shares of **National Cash Register** was made by Director Stanley Allyn in June. 5000 **Pullman** were sold in the same month by President Champ Carry, but this may have been due to the 2-for-1 split in June, which doubled the number of shares he held, and represented a point where a profit could be salted down.

Limited Buying Interest

It will not take much space to point out the stocks that have been enjoying consistent insider buying interest in recent months. **American Metal Climax** is the most outstanding member of this select group. Apparently its officers are not excessively worried that the Congo disturbances will spread into neighboring Rhodesia. Substantial commitments in **Diamond Alkali** were made by its officers in June and July, and have already been justified by exceptionally favorable interim reports. In a limited reversal **North American Aviation** has come in for some insider buying in June and July. Purchases of 1000 shares each were also made in **Gulf Oil** and **Standard Oil of California** in July, although the oil industry in general shows no strong sign of resurgence in terms of insider buying interest.

Composite Data Suggests a Decline

The record of insider transactions is, for various reasons, an imperfect guide for stock market decisions. Just the same, experience has shown that extended selling of their own stock by officers and directors usually presages a deterioration in the company's outlook, and heavy purchases the reverse. At present such evidence indicates a feeling that stock prices are more likely to decline than to resume their former upward movement during the intermediate future. END



INSIDE WASHINGTON

BY "VERITAS"

RECESSION talk mounts here—even in Administration circles. This despite the fact that the nation's economy continues to advance; not as fast as political candidates say it should, five percent annually, but there is an advance. It is true that a recent joint Commerce Department-Securities Exchange release indicated possible slight declines in third and fourth quarter new plant and equopment purchases, but generally overlooked is fact *that these are running nearly 12 percent ahead of a year ago!* Labor, now nearly 100 percent committed to a change of Administrations come next January 20, will step up the cries of "recession" in an effort to convince the electorate that we are headed for a full-blown depression. Careful analysis of reports and off-the-record comment indicates a mild slump, but not of depression proportions, is in the offing.

U. S. PRESTIGE in Latin-America, on the upgrade in the past few months, received a serious blow in closing days of Congressional debate on reduction of sugar imports from the Dominican Republic. Quiet, guarded queries at embassies of 17 of our southern neighbors indicate unanimous resentment at the declaration of Sen. Allen J. Ellender (D., La.), Chairman of the Upper Chamber's Agriculture Committee, that he wished there were 20 more Trujillos in Latin America. Trujillo, iron-fisted dictator of the Dominican Republic, is universally hated in the Western Hemisphere republics. The resentment is not at upper diplomatic levels which fully realize the Senator's relative insignificance in our national policy-making ranks, but explanation to the citizens of the Latin republics is difficult, almost impossible. Not yet publicly aired is State Department's view that the Senator has done "incalculable damage" to the generally friendly regard of the Latins for the United States in the wake of our planned multi-million dollar aid program for our "good neighbors."

HIGHWAY scandals will be "a dime a dozen" when Congress meets in January, according to reliable sources who declare "scarcely a state" is free of waste, inefficiency, "even graft," in the handling of contracts and funds as the Federal government has pushed ahead with plans for the 40,000 mile interstate system of defense highways. House Public Works Committee's special Subcommittee on the Federal Aid Highway Program has files bulging with well-documented evidence, but purposely refrained from public hearings until after the Presidential campaigns lest there be accusations of "politics for deliberate partisan purposes." Irregularities, however, are at State—not national—levels.

WASHINGTON SEES:

Prospects of a widening of the Russo-Sino rift are definitely in sight with the two Communist "empires" selecting Africa as their battleground for furthering their respective viewpoints on Marxist ideology — Khrushchev backing his "peaceful-co-existence-conquer-by-infiltration" theme, supported, of course, by economic and technical aid to the newly independent African nations, while Mao Tse-tung's "missionaries" beat the drums for direct action; chaos in short.

At the moment, the advantage lies with Khrushchev. He has the economic and industrial advantage while Mao has only mass manpower — manpower he lacks the means to transport to Africa for any all-out action — subversive or military — to sway the black peoples to his side of the argument. It is true that the Chinese Red leader has made some doubtful progress in Algeria, but he lacks methods — other than a 24-hour radio broadcast to Africa — to make it an all-out Red victory there.

In the meanwhile, the Russians have "invaded" the Congo, despite the presence of United Nations forces. President Eisenhower has said that he deplores the Russian action in sending air-lift and other aid to the Congo's Red-indoctrinated Lumumba, but the fact remains that — under United Nations commitments — we cannot do much to halt the Russians, apparently dedicated to their own unilateral African policy without regard for UN and world opinion.

As We Go To Press

Congressional Probe of National Security Agency (NSA) to Lack Sensation. Two reasons. When, as, and if agency heads testify before either House Armed Services or Un-American Activities Committees, public and press will be barred; secondly, NSA officials, with Presidential support, will flatly refuse to answer many questions on well-established precedent that such queries "intrude" upon the independent prerogatives of the Executive Branch of the government.

President Eisenhower has already indicated that the problem, arising from the defection of the two NSA employees to Moscow, is one for internal correction by NSA and the Pentagon — not for heavy-handed or clumsy intrusion by the Legislative Branch. A bitter White House-Congressional set-to is in the making, but White House will prevail.

Treasury Encouraged by Savings Bond Sales — Types "E" and "H." August sales of the "little fellow" securities were $355 million, 15% above August of a year ago, while redemptions dropped off by 12%. Redemptions, however, continue to outstrip sales. Treasury, however, foresees "a trend" that will eventually bring the sales curve above that of redemptions. Intensification of the payroll deduction "sales pitch" is partially responsible, plus gradual public realization that both principal and interest on the government's securities are guaranteed, against insured Federal guarantee of principal only for deposits with Savings and Loan (Building & Loan) associations and institutions, which yield a higher return.

Radio and Television Move to the Fore as Effective Campaign Media. A yet-to-be published private survey among political candidates will reveal that 92% of them regard the air waves as the most effective way to reach the electorate. Of the 92%, more than three-fourths will say there is "no substitute for the magic of television" for "impact and efficiency." National Committees of both Parties seem to have similar opinions — have set their TV budgets at about 40% above four years ago, even though the major TV networks have tendered free time to both Presidential candidates for face-to-face debates and discussions of the issues. In the meanwhile, the daily and periodical press is disturbed by the nearly 40% drop in paid political advertising, to say nothing of the "scoops" available to the rivaling electronic news media.

Natural Gas Pipeline Construction to Hit New High. Federal Power Commission authorized construction of $846.7 million in new interstate natural gas transmission facilities (9,400 miles of pipeline, 403,000 h.p. in compressor units) in fiscal year ended June 30. Insiders, gauging their estimates on flow of new applications since June 30, believe current fiscal year may be as much as 10% greater, possibly as high as $1.1 billion. Meanwhile, Interior's Bureau of Mines sees known (and to be discovered) natural gas reserves staying well ahead of consumer demands.

Centralization of Defense Purchasing Moves Toward Show-Down. The Comptroller General (a creature of Congress without fear of dislodgment on change of Administrations) has already unearthed annual waste of around $3 billion because the separate services — Army, Navy and Air Force — are doing their own purchasing without regard for prices given the separate services, or without one consulting the other for surplus materiel available for transfer.

Already exposed are widely varying prices for identical items bought by the different services, as well as one service buying in open market new items available from one of the other services, and at inflated prices. Out of all this is certain to come a single Defense purchasing agency (under civilian control) which will buy for all three. The idea has the support of Capitol Hill Chairmen of the Armed Forces Committees — possibly the tacit support of the White House. In the meanwhile, the Comptroller General is amassing evidence of "appalling waste in defense procurement through duplication and lack of centralized control."

Cotton Textile Industry Contemplates a "Strike." It will be vigorously denied by industry moguls, but fact remains they are studying a plan to completely shut down their mills — thus creating wide unemployment — with the explanation that they "cannot compete with low-priced foreign labor and the government's liberal import policies under the Reciprocal Trade Agreements Act."

The strike, if it materializes, will cite that foreign textile producers — mostly Japanese — can buy a bale of cotton in Savannah, Ga., freight it across the ocean, process it, freight it back to this country and sell it (as a finished product and at a profit) at less than our labor costs alone. The blame is perhaps equally divided between the demands of organized labor here and trade policies under the Reciprocal Trade Agreements Act. The Japanese textile worker has a wage running from nine cents to 82¢ an hour, against our average of $1.54 an hour. Japanese textiles come to this country duty-free, or at tariff rates that amount to nothing in the competitive picture.

Newsmen Still See Nixon the Winner. A private newspaper syndicate poll of news editors across the nation, as well as confidential conversations with Washington reporters who travel with the candidates, indicates the Republican nominee still "has the edge." A few, not many, attribute to Nixon advantage to the religious issue, but the majority say that the Democratic nominee's youth and lack of experience in foreign relations work against him. Those reporters who have probed the southern tier of States have found the Democratic Party's liberal labor plank a negative factor for Mr. Kennedy.

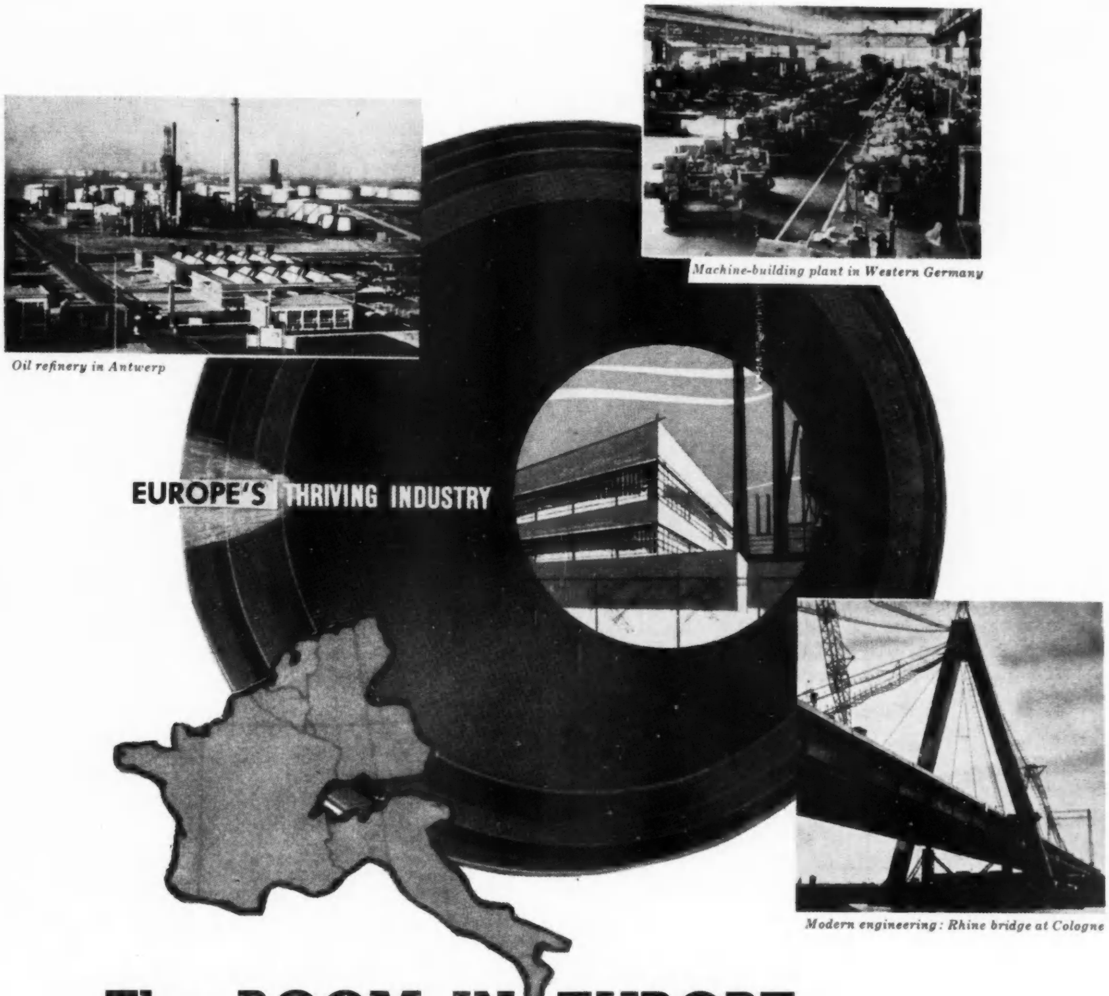
Labor Girds for 87th Congress Battle. Disturbing to the AFL-CIO chieftains is apathy toward unionism. Thus far, organization efforts among so-called white collar workers — engineers and other professional employees — has met with little success. In the meanwhile, primarily because of automation, "blue collar" jobs, from which the organizers draw their biggest membership have been declining. Per capita assessments from the locals have also been dropping.

In view of these adverse factors, the labor moguls (confident of overwhelming Democratic victory on November 8) plan lobbying drives to (1) Repeal Section 14(b) of the National Labor Relations (Taft-Hartley) Act permitting States to outlaw the union shop through Right-to-Work laws, and (2) Restore the closed shop. On the second issue (closed shop), the union leaders are not optimistic, but in view of the Democratic labor plank pledging repeal of 14(b) they will drive for its elimination. Fact is that in States having RTW laws, less than 85% of rank-and-file workers have signed union cards in plants where the unions have won National Labor Board collective bargaining elections.

Automobile Insurance Rates to Climb. There will be increases in fire, theft and liability rates with biggest bites in the last (liability) category. Thefs are very definitely on the rise, fire losses are about as in previous years, but jury verdicts in damage cases are standing at high award levels. Further, Courts in many cases have held car owners liable for damages even though the offending vehicle was actually in the hands of a car thief at accident time.

Real Upward Swing in Mid-Sixties. This is the yet-unpublished forecast of an industrial realtor of national prominence, who is confident that the "sixties" will be in stride by 1964 or 1965. He will warn production leaders that plant expansion must be planned now if it is to serve the needs of 1965. Apprised of the apparent 1960 boiling-off in plant and equipment expansion during the remainder of this year, he cited present rates of population expansion, growth of gross national product (now above half-trillion mark), and estimated at $787 billion in 1970, plus the rapid growth of new U. S. households — now increasing at an annual rate of 876,000.

Business Really Gets into Politics. A recent private analysis of 50-odd "House Organs" and publications of trade and professional associations found all but three stressing the need to register and vote. None showed bias of a partison nature, but most dealt with issues of specific industries, or issues of national import, lucidly explaining the legislation needed. Labor moguls, who have long practiced the system, but with distinct partisan bias, are unhappy about this move by business, but admit they are not in position to attack "big business for stealing our idea."



Oil refinery in Antwerp

Machine-building plant in Western Germany

Modern engineering: Rhine bridge at Cologne

The BOOM IN EUROPE AND *the Heated Debate on* The STRENGTH OF THE DOLLAR

By JACOBUS ANSEL UNTERMEYER

- **How attitude of finance ministers and central bank governors at September meeting in Washington will shape future of the dollar**
- **The truth about the dollar . . . factors of strength in dollar's world trade position — and as basic world currency . . . our importance as a creditor nation with assets on balance exceeding $40 billion — vs. likelihood of a depression in U.S.A. under impact of the cold war**
- **Can we count on the self-interest of the European Dollar Bloc to support the dollar in view of U.S. gold problem? The constructive issues involved**

THE present lack of buoyancy in the U.S. economy contrasts sharply with booming conditions in Western Europe. High interest rates here have been drawing money away from the United States. The resulting speed-up in loss of U.S. gold has again started tongues wagging about the health of the dollar.

The latter is certain to be a leading topic of conversation at the annual International Monetary Fund meetings in Washington at the end of this month. The thoughts and attitudes of these finance ministers and central bank governors are extremely significant, as their decisions will play an important part in shaping the future international position of the dollar. **These men, directly or indirectly, control the movement of short term funds, conversions of dollars into gold, and ultimately, to a large degree, the global status of confidence or distrust in the U.S. monetary unit. And this being the case, it is a matter of at least some concern when a number of informed**

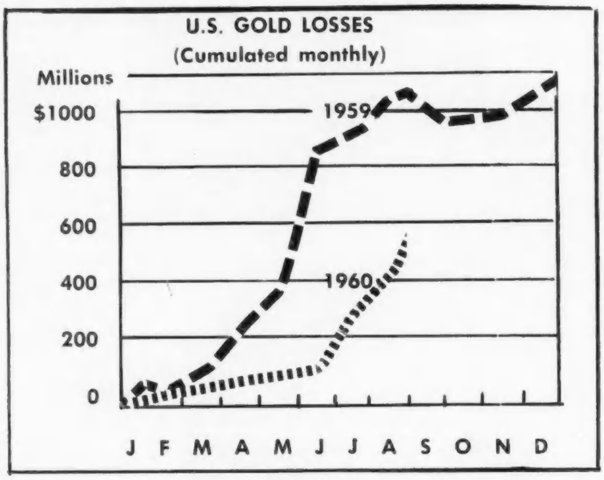


Chart 1

Foreign Exchange Rates

	Sept. 1 1959	Sept. 1 1960
Pound Sterling	$2.8026	$2.8117
German Mark	.2389½	.2398
French Franc	.2038	.2041
Dutch Guilder	.2644	.2651½
Swiss Franc	.2314	.2321½
Belgian Franc	.0200⅛	.0200
Swedish Krona	.1933	.1939
Danish Krone	.1449	.1452
Norwegian Krone	.1400	.1403¼

and rather objective observers have been reporting that European monetary managers now have a somewhat skeptical outlook concerning the future of the dollar and the U.S. economy. Their views are perhaps of more importance to us than those of many of our election-bent politicians here at home.

Looking at the Dollar

One school of thought points with alarm to the recent rate of gold outflow, where the drain, if maintained for a full year, would cost us some $2 billion more of our gold stock, by which time world confidence in the dollar would surely be dissipated. The other school of thought is equally certain that current pressures on the dollar are temporary and will quickly pass away.

As with most issues that stir heated debate, the truth lies somewhere in between the two poles of thought.

Appraising the dollar is very much like analyzing an iceberg: only a few of the facts are obvious at first glance, while much more lies beneath the surface. One aspect of the dollar which is clearly evident is its weakness in Europe's foreign exchange markets. As the table shows, the dollar is weaker today relative to most important foreign currencies than it was a year ago.

In many leading trading centers, the dollar is listed at an unenviable discount from the official mid-parity quotation, and an even wider spread is apparent in private transactions. This represents quite a shift from the "dollar-gap" days and is not exactly a blanket testimonial to dollar prestige.

On the other hand, the differences are not overwhelming and cannot of themselves be interpreted as a loss of confidence in the dollar.

Another indication of the dollar's position is the state of the U.S. gold stock. Thus far during 1960 our gold stock has fallen every month, the largest losses having occurred since midyear. Through September 7th, the loss this year has totalled $466 million. But as indicated in Chart 1, this is some improvement from the 1959 loss of $1.1 billion, or the $2¼ billion gold drain suffered in 1958. Of the slightly under $19 billion in U.S. gold stock which now remains, about $12 billion represents the 25% reserve which must be kept as backing for Federal Reserve banknote and deposit liabilities, leaving less than $7 billion standing behind our short-term liabilities to foreigners.

These two easily discernible facts—the weakness of the dollar against other currencies and the gold outflow—tell only part of the story about the dollar. The fundamentals that actually determine the state of the dollar can be understood only by probing deeper into the problem.

Causes of Weakness

The amount of gold and other reserves that a country gains or loses is determined in the long run by the bookkeeping balance of its payments position with the rest of the world. This is measured by subtracting its imports (of both goods and services) and capital outflows from its exports and capital inflows. In the past decade the United States has had a deficit in its over-all balance of payments in almost every year. This situation is not expected to be reversed in the near future, although some im-

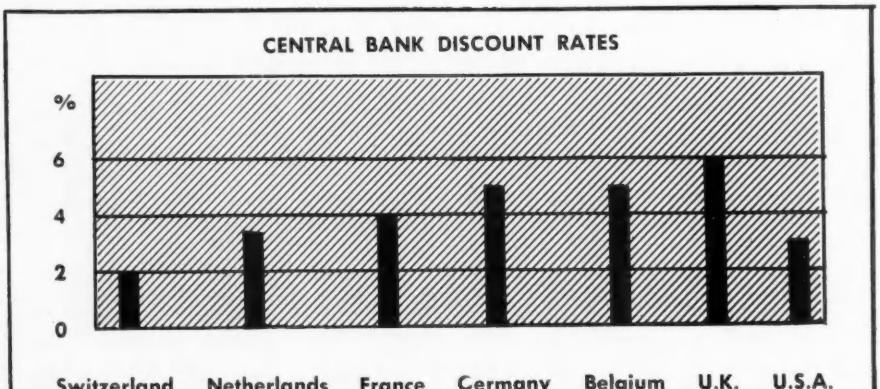


Chart 2

provement is in prospect. (See MWS, August 13, 1960.) *The important element is the size of the deficit rather than its existence per se.* But as long as we continue to have a deficit in our international payments, either our gold stock will fall, or short-term foreign assets here (which represent potential claims against our gold supply) will build up.

In the short run, a nation's gold and foreign exchange reserves can be materially affected either by flows of money across national boundaries seeking higher interest return, or by the panic movement of funds in search of safety. An example of the latter is the recent flight of capital from the Congo and Belgium into Switzerland, which explains why the Belgian franc is the only major European currency that has shown any weakness this year.

Much of the current pressure on the dollar has come from the flow of funds out of the United States to Europe in search of higher yields. The lack of zip in the U.S. economy in recent months has prompted the Federal Reserve to pull interest rates down in an attempt to stimulate business activity. Meanwhile, in Western Europe, the situation is exactly the opposite. Industrial output and investment are booming, and the monetary authorities there are pushing interest rates up to curb the danger of inflation.

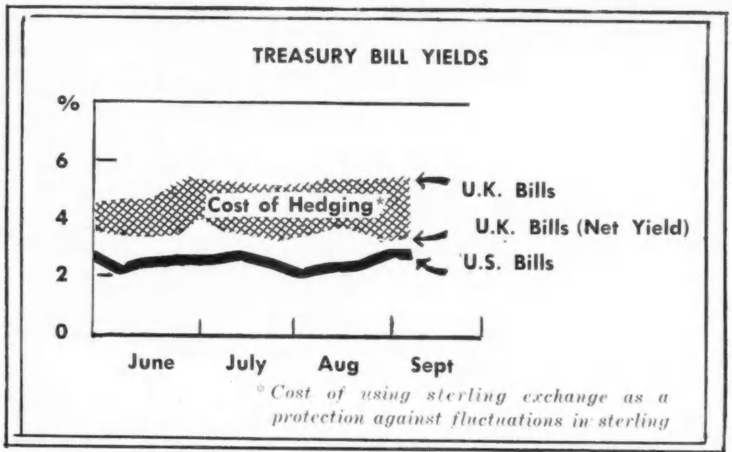


Chart 3

Impact of the Boom in Europe

Interest rates have been particularly high in Germany and the United Kingdom (see Chart 2). This has attracted foreign funds to both countries with resulting large gains in their official reserves.

In **West Germany** the business boom seems to be bumping against the ceiling of capacity, with more than four times as many recorded job vacancies as people looking for work. Germany's restrictive credit policy has been in force for the past year without noticeable effect on the inflow of capital from abroad —largely the United States. There has also been a heavy spate of foreign buying of German marks on renewal of rumors that the mark would soon be upvalued. These rumors were strongly denied by the German authorities.

More recently the German Central Bank has tried to stop the inflow of hot money from abroad by prohibiting the payment of interest on such funds and by restricting the sale of German open-market paper to domestic purchasers only. However, foreigners can still buy German common stocks, and such purchases have been continuing at a high level.

In fact, while the U.S. stock market has been noticeably sluggish of late, the exchanges in Germany, France, Switzerland, and other Western European countries have been booming. European stock averages have advanced as much as 30% to 50% this year, in contrast with the sharp drop in the Dow-Jones industrial average here. Americans in growing number are buying shares in blue chip European concerns: auto manufacturers like Fiat, Simca, and Daimler-Benz; the Michelin and Pirelli tire companies; the chemical giants Montecatini, Farben-Bayer, Saint-Gobain, and Imperial; and electric companies like Philips of Holland and A.E.G. of Germany.

In the **United Kingdom,** the interest of American and other investors has recently centered in the British treasury bill market where yields jumped above 5½% following the hike in the British bank rate to 6% in late June. Cautious investors, switching from U.S. (current yield about 2½%) into British treasury bills, can cover their purchase of sterling by simultaneously contracting to sell sterling at a fixed exchange rate when the bills mature. The cost of this optional hedging, which effectively insures against an adverse movement in the dollar-pound exchange rate during the three-month period, reduces somewhat the actual yield to American investors (see Chart 3), but even so the return is above that obtainable here.

U.S. Dollars Abroad

European central banks keep their reserves largely in the form of gold and U.S. dollars. As they receive dollars in excess of their requirements for trade payments and other current purposes, they may convert these dollars into gold, or they may simply hold them as interest-bearing dollar deposits or short-term investments in the United States. When interest rates are low in the United States relative to Europe, as is the case now, European central banks are more likely to find themselves with large excess holdings of dollars.

In some countries, including **Belgium** and **Switzerland,** the authorities customarily convert the bulk of such excess dollars into gold, while others—notably Germany—generally convert a lesser proportion of dollars into gold. *The German central bank, cognizant of the harmful psychological effect of the U.S. gold loss, has recently been encouraging German commercial banks to increase their dollar holdings. A premium of 1% is offered to those switching from D-marks into dollars.*

Under long-established custom, the U.S. Treasury sells gold on demand to foreign central banks at the official price of $35 an ounce, plus a handling commission of ¼%, an effective charge of $35.08¾. It is only when foreign monetary authorities actually buy gold that a dollar outflow results in a loss of gold to the United States.

The Attitude of Western Europe Toward the Dollar

With the wide differential existing between interest rates here and *(Please turn to page 45)*

THE CHEMICAL COMPANIES Under INCREASING COMPETITION

By BRYAN PYNOR

- ► Sales up and net down as margins shrink . . . under increased costs — research — and stiff competition from oil industry
- ► High activity — growth — and opportunity — in foreign markets — meeting growing competition with foreign inroads on domestic markets
- ► Enormous research and development programs laying foundation for growth in the future — and the companies involved

FACED with the irony of rising sales and level profits, the chemical industry is experiencing one of its most perplexing years in 1960. Sales during the first half of this year jumped a remarkable 14 per cent, reaching $14.2 billion. And it now seems likely that sales for the full year will rise to approximately $28 billion from the previous record of $25.7 billion in 1959.

Normally, such substantial expansion could be counted upon to reflect itself in similar, if not equal, gains in profits. But that is definitely not the case this year. Net earnings of the industry during the first half of this year, which were running at an annual rate of about $2.1 billion, were no higher than a year earlier.

The irony of this situation is all the more marked when it is realized that demand for U.S. chemical products was buoyant both in export markets and those at home. Furthermore, chemical prices have generally been higher than last year. Quotations for chlorine and caustic soda increased earlier in the year and, more recently, prices for ammonia and phosphate fertilizers, as well as for potash, have risen. These advances have more than offset declines in certain plastic and nylon products so that the Bureau of Labor Statistics' wholesale price index of chemical and allied products (1947-49 = 100) averaged 110.2 during the first six months of 1960, against 109.9 in 1959.

Declining Profit Margins

The reasons for the failure of earnings to reflect

the favorable advance in sales lies in the intensification of pressures on profit margins. To put it simply, the costs and expenses of doing business have risen just as sharply as sales have. One factor here has been the continued advance in wage costs; during the first part of this year, average weekly earnings in the chemical industry equaled $102.64, compared with $100.02 in 1959. An even more important factor was the increased costs of obtaining and installing new equipment. Also, freight and fuel prices to chemical producers have been greater than in 1959, in some cases, sharply higher. Budgets for research and development are also out-pacing 1959. Finally, interest charges and depreciation are running well ahead of last year's rates.

Dow Chemical Company, in its recently released annual report for the fiscal year ended May 31, 1960, pointed up the problem of declining profit margins, stating that "we continue to be faced with . . . extreme competition from many directions, pressure on profits, and an inevitable rise in certain costs."

Dow's vice-president for finance, Carl Gerstacher, spoke of the pinch on profit margins in even more dramatic fashion before a recent meeting of the International Congress of Chemical Engineering in Mexico City. *He said, "Life is rugged in the chemical industry today. There was a time when other industries looked jealously at our profit margins, when companies with cash on hand were urged to make chemicals—any kind of chemicals—because everybody made money on chemicals, or when a new company could get capital merely by announcing it was going into chemicals. Such is not the case today.*

"While there is some profit left," he continued, "it is getting sufficiently thin that it is in danger of strangling what has been a rapidly growing and progressive industry."

Intensifying Competition

The immediate situation in the chemical industry of reduced profit margins may well be, as Mr. Gerstacher and his company's annual report intimate, a barometer of new and more or less permanent trends in the chemical industry. The intensification of competition in the industry certainly shows little, if any, signs of early abatement. At home, this competition stems from the entry of a variety of non-chemical companies into various chemical processing and manufacturing fields. The most important examples of these are oil companies, many of which are fast becoming an integral part of the chemical industry. **Phillips Petroleum** makes polymers from oil and gas by-products and is one of the leading firms in high-density polyethylene. **Esso (Standard Oil N.J.)** has been a marketer of chemical specialty products through its subsidiary, Enjay, for years. It recently completed a plant to manufacture polypropylene and other plastics. **Shell Oil** was an early entrant in agricultural chemicals and insecticides. **Standard Oil of California** is another leader in agricultural chemicals. *Each of these firms now sells $150 million or more of chemicals annually—a figure that is greater than the total sales of many straight chemical companies.*

In some products and in certain markets, oil companies are leaders in technology and in pricing. A good example of this fact is provided by Shell Oil which is the most important factor in the West Coast market for ammonia. Since 1958, when a heavy over-capacity of the products weighed down the market, West Coast ammonia prices have been about $22 per ton lower than those on the East Coast.

Recently a number of producers raised quotations significantly, but no one in the industry can be certain these advances will hold because Shell has not yet acted. If it should not increase its prices, then the other marketers would have to lower theirs, so important is Shell.

The Oil Companies Deep in Chemicals

The entry of oil firms into the chemical industry, which was started many years ago, reflected, among other things, the need for greater facilities to make ammonia, benzene, ethyl alcohol, ethylene and other basic chemical building blocks. Once into ammonia production, however, a logical further step was the organization of a marketing force to sell ammonia not only as an industrial chemical but also as a fertilizer. Then the fertilizer line was rounded out by entry into urea, a chemical compound.

This process of integration has accelerated in recent years. Further, more and more oil companies have recently decided to expand into the chemical industry. At the heart of their decision lies the fact that their own profit margins from oil operations are declining; by comparison, chemical industry profit margins are good.

Newcomers and Others

In addition to petroleum companies, a variety of other non-chemical firms are entering the business. **Quaker Oats** has a chemical division which utilizes by-products from oat hulls for industrial alcohols. **Armour** upgrades fats and oils into soaps and detergents. **National Distillers and Chemical Corp.** is now the second most important producer of general purpose polyethylene. **W. R. Grace and Co.** diversified into the chemical business in the early 1950's.

Plastics Margins Down

The pressure of growing competition on profit margins is nowhere more evident than in the market for plastics—the fastest growing sector of the chemical industry. Even this year plastics production is continuing its rapid expansion, as output rose about 10 per cent during the first half of the year. Industry forecasts look for total plastics and resin production over the full year to maintain this growth and to rise to 6.6 billion pounds.

In spite of this very favorable expansion, prices of many plastics have weakened this year. In several cases, this weakness was more than sufficient to offset the resounding increase in volumes, resulting in lower dollar sales than a year ago. *The most important example of this unfavorable price development is polyethylene. This plastic, which has tapped wide markets in packaging and sheeting and which has experienced faster growth than any other plastic product, is now in surplus.*

Capacity to produce low-density or general purpose polyethylene is now 1.5 billion pounds, while sales this year are not likely to amount to much more than 1.2 million pounds. And large amounts of new capacity are scheduled to be brought into operation in the next two years.

As a result of this build-up of excess capacity,

Statistical Position of Leading Chemical Companies

Company	1st 6 Months: Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	Net Profit Margin 1959 %	Net Profit Margin 1960 %	Net Per Share 1959	Net Per Share 1960	Full Year: Earned Per Share 1958	Earned Per Share 1959	Cash Earn. Per Share 1959	Indic. 1960 Div. Per Share *	Price Range 1959-60	Recent Price	Div. Yield %
AIR REDUCTION W.C. (mil.) '58–$47.8; '59–$46.1	$101.8	$104.9	7.6%	7.6%	$2.01	$2.03	$3.44	$3.79	$6.18	$2.50	91½- 64½	67	3.7%
ALLIED CHEMICAL CORP. W.C. (mil.) '58–$158.0; '59–$186.4	372.4	401.0	7.5	7.7	1.41	1.55	1.72	2.51	5.27	1.80	66 - 46	56	3.2
AMER. AGRIC. CHEM. W.C. (mil.) '58–$26.7; '59–$31.0	91.4[1]	90.0[2]	5.5[1]	3.9[2]	2.41[1]	1.69[2]	2.41[1]	1.69[2]	3.38[2]	1.60	37⅞- 25	26	6.1
AMER. CYANAMID W.C. (mil.) '58–$130.5; '59–$161.5	297.5	305.1	9.4	9.3	1.28	1.34	2.07	2.46	4.54	1.60	65¼- 46¾	51	3.1
AMER. POTASH & CHEM. W.C. (mil.) '58–$14.2; '59–$17.8	27.7	26.4	9.1	9.9	1.07	1.11	1.83	2.17	4.84	1.20	54⅞- 33¾	40	3.0
ATLAS POWDER W.C. (mil.) '58–$17.2; '59–$15.6	34.9	35.5	6.2	5.1	2.86	2.40	3.80	5.15	9.59	2.40	94½- 68½	86	2.7
COLUMBIAN CARBON W.C. (mil.) '58–$18.9; '59–$25.7	36.6	41.3	9.5	9.7	2.16	2.49	2.46	3.77	7.30	2.40	52 - 43½	49	4.8
COMMERCIAL SOLVENTS W.C. (mil.) '58–$23.1; '59–$27.3	32.4	34.3	4.2	7.6	.50	.93	.52	1.02	2.33	.40	25½- 12⅝	21	1.9
DIAMOND ALKALI W.C. (mil.) '58–$20.5; '59–$27.6	66.3	71.5	7.8	8.9	1.85	2.19	2.32	3.90	7.23	1.80	66⅜- 46	64	2.8
DOW CHEMICAL W.C. (mil.) '58–$130.7; '59–$156.2	705.4[3]	781.4[4]	8.9[3]	10.5[4]	2.39[3]	3.01[4]	2.39[3]	3.01[4]	5.87[4]	1.40[5]	100⅞- 74¼	82	1.7
du PONT W.C. (mil.) '58–$615.7; '59–693.9	1,083.4	1,110.1	19.9	18.2	4.61	4.32	7.24	8.92	12.27	7.00	278¾-187½	196	3.5
FOOD MACHINERY & CHEM. W.C. (mil.)) '58–$107.1; '59–$120.2	184.0	180.8	6.2	6.1	1.64	1.71	2.39	2.92	4.92	1.40	58⅛- 40	54	2.5
GRACE (W.R.) & CO. W.C. (mil.) '58–$130.3; '59–$138.1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	2.06	2.98	7.86	1.60[5]	54½- 33⅛	36	4.4
HERCULES POWDER W.C. (mil.) '58–$54.0; '59–$66.6	137.2	160.5	8.4	8.9	1.36	1.46	2.04	2.72	4.96	1.30	81¼- 61⅜	80	1.6
HEYDEN-NEWPORT CHEM. W.C. (mil.) '58–$17.2; '59–$19.1	27.8	30.5	5.0	6.0	.60	.82	.62	1.19	3.35	.60	24⅝- 13½	22	2.7

W.C.—Working capital.
*—Estimate of indicated dividend rate.
1—Year ended June 30, 1959.
2—Year ended June 30, 1960.
3—Year ended May 31, 1959.
4—Year ended May 31, 1960.
5—Plus stock.

Individual Company Ratings

Air Reduction - B2
Allied Chemical - A1
American Agric. Chem. - B4
American Cyanamid - A2
American Potash - B1
Atlas Powder - B4
Columbian Carbon - B2
Commercial Solvents - C1
Diamond Alkali - B1
Dow Chemical - A2
DuPont - A4
Food Machinery - B1
W. R. Grace - B1
Hercules Powder - A1
Heyden Newport - C1

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

polyethylene prices began to decline late in 1959. The major reduction, however, was made in August, when **Union Carbide,** by far the largest producer, reduced quotations for various polyethylene grades by as much as 5 cents per pound. Such a sharp reduction, although hardly beneficial to immediate profit improvement, will make polyethylene packaging film more competitive with cellophane and other types of wrappers. Additional markets, therefore, may well be tapped in the future.

Further Complications in the Fiber Market

Another major area of growth for the chemical industry has long been that of man-made fibers—nylon, dacron, acrilan, kodel, etc. This year sales in this market have continued to forge ahead with the major exception of rayon. However, price weakness has plagued major producers in this market, too.

Moreover, competition for the largest single market in man-made fibers is intensifying. This is the original equipment auto and truck tire market. Nylon tire yarn makers, principally **duPont** and **Chemstrand,** have succeeded in capturing a major part of the replacement tire business from rayon tire yarn producers. However, nylon has failed to make any inroads on the original equipment business. But this market represents a major prize which nylon producers feel they must tap, for the rate of growth of other nylon markets shows in-

Statistical Position of Leading Chemical Companies —(Continued)

	1st 6 Months: Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	Net Profit Margin 1959 %	Net Profit Margin 1960	Net Per Share 1959	Net Per Share 1960	Full Year: Earned Per Share 1958	Earned Per Share 1959	Cash Earn. Per Share 1959	Indic. 1960 Div. Per Share *	Price Range 1959-60	Recent Price	Div. Yield %
HOOKER CHEMICAL CORP. W.C. (mil.) '58–$34.1; '59–$62.0	$74.7	$75.0	9.2%	8.5%	$ .93	$ .86	$1.43	$1 80	$3.03	$1.00	47⅜- 30½	31	3.2%
INT. MINERAL & CHEM. W.C. (mil.) '58–$33.1; '59–$29.9	112.5[1]	123.8[2]	5.5[1]	6.0[2]	2 47[1]	3.00[2]	2.47[1]	3.00[2]	5.60[1]	1.60	36¼- 29	35	4.5
MONSANTO CHEMICAL W.C. (mil.) '58–$243.1; '59–$240.1	413.7	431.7	8.5	7.7	1.57	1.44	1.93	2.66	5.43	1.00	56¾- 37⅞	40	2.5
NOPCO CHEMICAL CO. W.C. (mil.) '58–$6.0; '59–$9.8	17.8	20.6	5.9	4.5	1.02	.85	1.71	2.09	2.84	1.00	44½- 28	33	3.0
OLIN MATHIESON CHEM. W.C. (mil.) '58–$241.4; '59–$259.2	347.3	348.2	5.0	5.3	1.32	1.40	.70	2.81	5.34	1.00	58¾- 38⅛	40	2.5
PENNSALT CHEMICALS W..C (mil.) '58–$20.6; '59–$21.2	45.3	47.1	6.0	5.6	.71	.68	.95	1.18	2.85	.60	36 - 22½	27	2.2
ROHM & HAAS W.C. (mil.) '58–$37.2; '59–$53.8	109.3	116.2	10.8	10.5	10.67	10.86	13.05	20.51	34.86	4.00	780 -481½	659	.6
SPENCER CHEMICAL W.C. (mil.) '58–$20.1; '59–$19.8	73.0[1]	74.1[2]	9.0[1]	9.0[2]	2.25[1]	2.27[2]	2.25[1]	2.27[2]	4.39[1]	1.40	45½- 28¼	29	4.8
STAUFFER CHEMICAL W.C. (mil.) '58–$40.8; '59–$51.9	117.2	114.3	9.9	9.4	1.27	11.8	1.99	2.41	4.11	1.20	71 - 49½	52	2.3
TEXAS GULF SULPHUR W.C. (mil.) '58–$70.5; '59–$74.3	33.0	29.1	2.1	2.1	.70	.61	1.34	1.33	1.66	1.00	25⅞- 15¾	17	5.8
UNION CARBIDE CORP. W.C. (mil.) '58–$450.3; '59–$457.4	760.1	771.6	11.8	10.5	3.01	2.70	4.15	5.70	9.77	3.60	150½-114	116	3.1
UNITED CARBON W.C. (mil.) '58–$12.3; '59–$17.6	31.4	29.5	11.1	12.3	2.84	2.85	4.54	5.21	10.87	2.00	88¼- 54½	57	3.5
U. S. BORAX & CHEM. W.C. (mil.) '58–$8.4; '59–$12.7	47.3[3]	51.2[3]	9.8	10.5	1.00[3]	1.17[3]	.41	1.29	2.63	.45	51⅜- 29½	39	1.1
VIRG.-CAROLINA CHEM. W.C. (mil.) '58–$28.8; '59–$31.6	81.4[1]	86.8[2]	1.6[1]	2.4[2]	.14[1]	1.61[2]	.14[1]	1.61[2]	—	—	35¾- 19½	28	—

W.C.—Working capital.
*—Estimate of indicated dividend rate.
d—Deficit.

[1]—Years ended June 30, 1959.
[2]—Years ended June 30, 1960.
[3]—9 months ended June 30.

Individual Company Ratings

Hooker Chemical - B4	Olin Mathieson - B2	Spencer - B2	Union Carbide - B2
Inter. Minerals & Chem. - B1	Pennsalt - B1	Stauffer - B2	United Carbon - B2
Monsanto - A2	Rohm & Haas - A1	Texas Gulf Sulfur - B2	U. S. Borax - C1
Nopco - B2			Virginia Carolina - C1

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

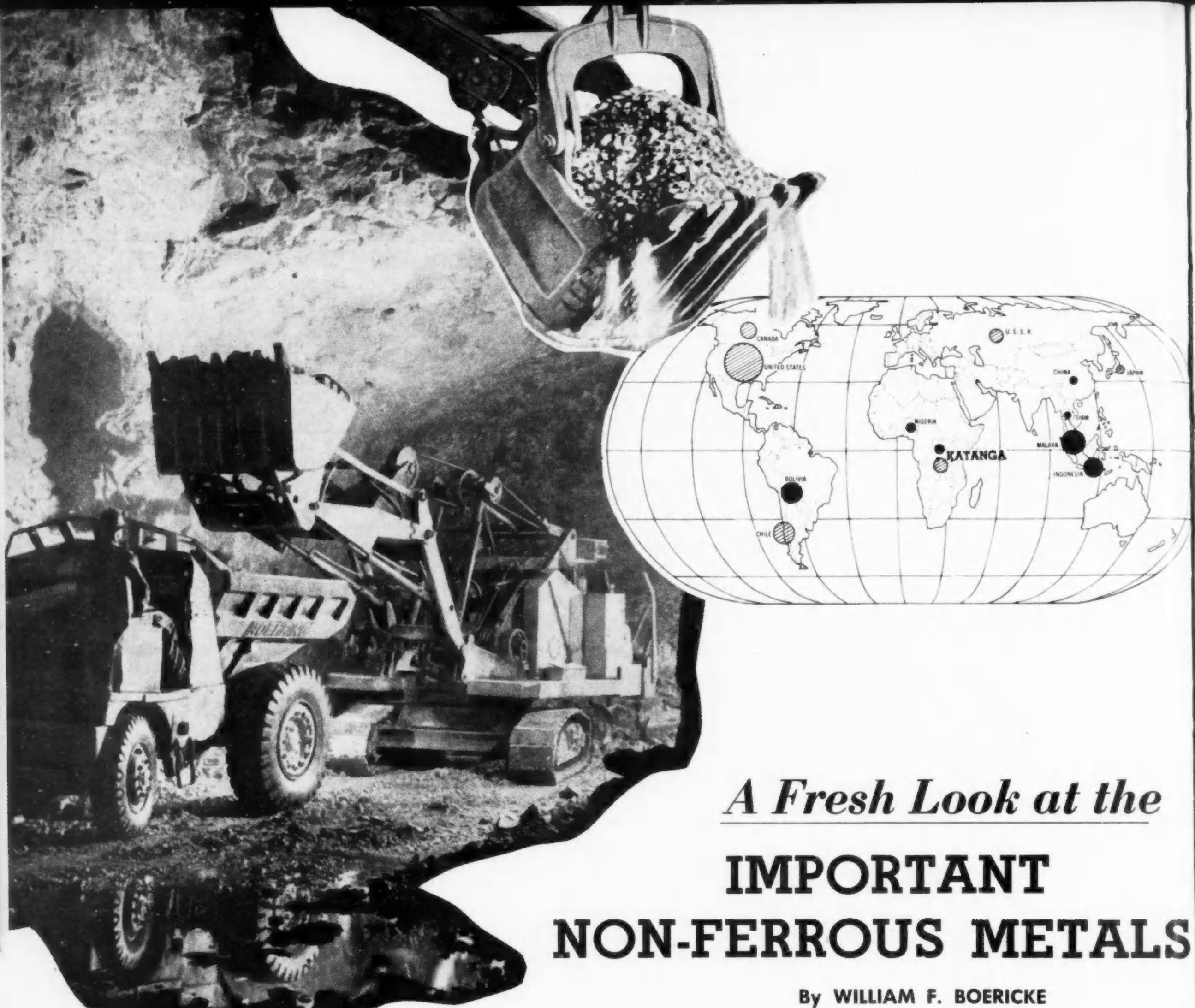
creasing signs of maturing. Therefore, duPont reduced the price of nylon tire yarn last December and it ordered another reduction in August. At the same time, however, rayon tire yarn makers have been reducing their prices in order to remain competitive. Thus far, therefore, nylon still has not captured any of the original equipment market and it now appears that it will be impossible to obtain any of this business until the 1962 model year.

Challenge and Opportunity of Foreign Markets

The chemical industry faces both an opportunity and a challenge when it comes to the foreign market. Demand for chemicals abroad is growing very rapidly and, at the present time, U.S. exports are benefitting from this expansion. However, just as in the domestic market, competition is on the ascendancy abroad.

Growth in Foreign Demand—Exports of U.S. chemicals to foreign areas increased a sharp 15 per cent during the first half of this year, and current estimates indicate that exports will total $1.8 billion for the entire year 1960. *Shipments to the United Kingdom expanded a whopping 44 per cent during the first half of this year and those to Western Germany by an equally astounding 50 per cent.*

In fact, the rapid growth in foreign needs for chemicals is luring many American companies into constructing plants right on the spot. *A recent survey indicated that* *(Please turn to page 47)*



A Fresh Look at the IMPORTANT NON-FERROUS METALS

By WILLIAM F. BOERICKE

- Assaying the position and outlook for Copper — Aluminum — Zinc — and Lead at the domestic — at the foreign level . . . under supply-demand price situation in each
- Burden of temporary over-capacity under intensified competition between the metals . . . aggressive tussle for new markets — with new and diversified products
- Variance in the position of the producers — and the fabricators unable to meet Europe's considerable price differential
- Companies in best position — those static or lagging

IT is becoming increasingly more evident that the major non-ferrous metals are presently confronted uniformly with the hard fact that productive capacity is exceeding current demand. Copper, aluminum, zinc, and lead are in oversupply. Production cutbacks have been made in some instances, and more are likely to occur if producers' stocks of metal keep on climbing. Otherwise metal prices, which have held extraordinarily steady for an unprecedented length of time, are quite likely to decline.

At this date shipments of the metals are running rather substantially below last year's levels. This does not necessarily mean that consumption is actually lower than last year. *Part of the decline in shipments arises from a change in the buying habits of consumers that has occurred in 1960.*

Convinced that no shortage of these metals is likely to occur in the foreseeable future, consumers have refused to stock up heavily on their inventories and undoubtedly have been reducing them as occasion permitted. They know that their orders receive the promptest attention from their suppliers and quite naturally they want to pass some of the costs of maintaining inventories back to them. Interest charges and warehousing costs are reduced. This is not satisfying to the producers, yet there is little they can do about it.

But this does not prove that consumption is as much below 1959 levels as the shipment figures would suggest. While we have excellent statistics on producers' stocks of metal, we have nothing on consumers' inventories. If we knew what the latter were

Leading Non-Ferrous Metal Companies

	1st 6 Months: Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	Net Profit Margin 1959 %	Net Profit Margin 1960 %	Net Per Share 1959	Net Per Share 1960	Full Year: Earned Per Share 1958	Earned Per Share 1959	Cash Earn. Per Share 1959	Indic. 1960 Div. Per Share *	Price Range 1959-60	Recent Price	Div. Yield %
ALUMINIUM LTD. W.C. (mil.) '58–$200.4; '59–$220.8	$211.5	$255.8	4.9%	8.5%	$ .35	$ .72	$ .74	$ .79	$2.34	$ .60	39⅛- 27	31	1.9%
ALUMINUM CO. OF AMER. W.C. (mil.) '58–$293.0; '59–$319.3	424.9	443.0	6.8	4.9	1.32	.96	1.96	2.52	6.12	1.20	115¾- 69	69	1.7
AMERICAN METAL CLIMAX W.C. (mil.) '58–$82.0; '59–$102.8	317.6	3533	4.6	5.6	1.02	1.38	1.27	2.15	2.88	1.20	34½- 20¼	21	5.7
AMER. SMELTING & REFINING W.C. (mil.) '58–$110.2; '59–$134.4	217.6	245.2	3.1	5.6	.95	2.25	2.53	1.74	4.34	2.00	57 - 41⅛	54	3.7
AMER. ZINC, LEAD & SMELT. W.C. (mil.) '58–$9.0; '59–$9.4	25.8	25.8	3.2	4.9	.72	1.02	.96	1.48	2.22	.50	19⅛- 14	15	3.3
ANACONDA CO. W.C. (mil.) '58–$179.6; '59–$195.7	64.6	53.4	4.6	4.9	3.23	2.53	3.16	5.53	10.32	2.50	74⅞- 46¼	49	5.1
BRIDGEPORT BRASS CO. W.C. (mil.) '58–$37.8; '59–$41.4	88.2	77.9	4.4	2.2	2.43	.98	2.80	4.40	6.80	1.40	44½- 25	25	5.6
CALUMET & HECLA W.C. (mil.) '58–$21.1; '59–$22.6	42.5	41.1	6.4	5.5	1.33	1.00	1.49	2.42	3.52	1.20	27½- 18	20	6.0
CERRO DE PASCO W.C. (mil.) '58–$52.1; '59–$80.0	70.8	84.0	4.3	6.2	1.24	2.00	2.39	3.65	6.00	1.00[1]	50¾- 29⅛	31	3.2
CONS. MINING & SMELT. W.C. (mil.) '58–$92.3; '59–$95.9	62.8	64.2	13.6	20.7	.52	.81	.86	1.02	1.59	.90	23¼- 17½	20	4.5
COPPER RANGE W.C. (mil.) '58–$29.0; '59–$32.8	22.2	16.3	7.9	d3.0	.94	d.26	1.38	1.28	3.61	.50	33⅞- 15⅛	18	2.7
EAGLE-PICHER CO W.C. (mil.) '58–$27.9; '59–$30.1	60.5	62.3	3.9	4.8	1.17	1.45	1.04	2.29	3.74	1.20	33½- 20⅝	21	5.7
GRANBY MINING CO. LTD. W.C. (mil.) '58–$.9; '59–$1.1	N.A.	N.A.	N.A.	N.A.	.27	d.33	d.01	.07	.42	—	10⅛- 5⅝	7	—
HOWE SOUND W.C. (mil.) $16.9; '59–$20.9	38.1	50.5	10.1	5.9	1.42	1.02	.70	2.37	3.67	[2]	27 - 13⅜	15	—
HUDSON BAY MIN. & SMELT. W.C. (mil.) '58–$34.8; '59–$35.9	21.9	24.2	20.0	24.0	1.00	2.11	2.68	3.59	4.38	3.00	66 - 43½	48	6.2

W.C.—Working capital.
*—Estimate of indicated dividend rate.
d—Deficit.

1—Plus stock.
2—3% stock.

Aluminium Ltd. Has made the best comparative half-year record of the aluminum producers, reporting earnings of 72c per share as against 35c per share in the first six months of 1959. Announcement of a new process for producing aluminum metal direct from bauxite ores lends considerable attraction. **B1**

Aluminum Co. of America: Largest aluminum producer in the world. Profits hurt by over-capacity of industry and intense competition but long range potentials continue excellent. **A2**

American Metal Climax: Prospects hurt by political uncertainty in Northern Rhodesia although its important copper holdings there report increasing profits. Molybdenum sales affected by low steel operating rate but improvement expected in fourth quarter. **B2**

American Smelting & Refining: World's leading custom smelter with expanding metal production. Controls Southern Peru Copper Co., now a major world producer. Longer range earnings prospects are also enhanced by the indicated improvement of income of the asbestos operation in Quebec and the further expansion of the operations of the Mount Isa Mines Ltd. in Australia. **B1**

American Zinc Lead & Smelting: Huge reserves of zinc ore, increasing production, low cost mining. Participates in production of Hydrometals new T-metal. Profits definitely linked with price of zinc and zinc products, hence cyclical. **B2**

Anaconda: Well diversified integrated producer with probably largest copper reserves in the world at its Chilean mines. Also notable uranium, zinc, and silver. Aluminum of growing importance. Subject to labor and political uncertainties in Chile. **B2**

Bridgeport Brass: Hard hit by depressed conditions in brass and copper fabrication. May enter aluminum production on integrated basis. **B4**

Calumet & Hecla: Principal business is copper fabrication, but also interested in uranium and magnesium. Only small metal output, aggressive mgt. Although sales in 1960 are expected to compare favorably with last year per share earnings may be below 1959's $1.33, due to increased shares outstanding. **B2**

Cerro de Pasco: Peru's largest producer of non-ferrous metals. Has acquired a large interest in Southern Peru Copper Co. About half of assets are the U.S. which should tend to minimize Peruvians political uncertainties. **B2**

Consol. Mining & Smelting: Largest Canadian smelter and important miner of lead and zinc. Low cost producer but adversely affected by U.S. quotas on lead and zinc. **B2**

Copper Range: Has important copper mine in its White Pine but developing rather slowly. New management recently installed. **C4**

Eagle Picher. Mining lead and zinc now subordinate to manufacturing divisions which has shown consistent improvement. Well management. **B2**

Granby Mining: High cost producer, limited reserves. Has half interest in Granduc Mines with Newmont Mining Co. but no work now contemplated. **D4**

Howe Sound: Company now obtains about 80 per cent of profits from diversified manufacturing divisions, but still retains its important tungsten mine in N. Carolina. **C2**

Hudson Bay Mining: Well established Canadian copper-zinc producer. Ore reserves improved through new mine. Strong finances. **B2**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

Leading Non-Ferrous Metal Companies —(Continued)

	Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	1st 6 months Net Profit Margin 1959 %	1st 6 months Net Profit Margin 1960 %	1st 6 months Net Per Share 1959	1st 6 months Net Per Share 1960	Full Year Earned Per Share 1958	Full Year Earned Per Share 1959	Full Year Cash Earn. Per Share 1959	Indic. 1960 Div. Per Share *	Price Range 1959-60	Recent Price	Div. Yield %
INSPIRATION CONSOL. .... W.C. (mil.) '58–$17.7; '59–$21.1	$15.7	$12.9	N.A.	N.A.	$2.71	$2.16	$1.87	$5.07	$6.78	$2.50	50¼- 33	36	6.9%
INTERNATIONAL NICKEL .... W.C. (mil.) '58–$237.6; '59–$240.4	212.4	268.7	18.0%	12.8%	1.32	1.50	1.36	2.92	3.41	1.70	57⅜- 43⅛	54	3.1
KAISER ALUM. & CHEM. .... W.C. (mil.) '58–$91.3; '59–$112.1	221.3	214.2	5.9	5.4	.72	.62	1.43	1.17	4.45	.90	65 - 35⅞	37	2.4
KENNECOTT COPPER .... W.C. (mil.) '58–$306.0; '59–$228.5	262.6	240.5	18.1	17.1	4.32	3.86	5.44	5.19	6.34	5.00	117¾- 73¼	78	6.4
MAGMA COPPER .... W.C. (mil.) '58–$21.0; '59–$20.7	32.0	26.1	10.5	10.2	2.82	2.22	.58	d2.08	1.20	—	78 - 34¼	43	—
MUELLER BRASS CO. .... W.C. (mil.) '58–$16.9; '59–$17.8	33.5	29.2	2.2	.04	1.36	.02	2.68	3.42	5.90	1.40	32 - 20	21	6.6
NATIONAL LEAD .... W.C. (mil.) '58–$120.1; '59–$138.6	264.5	269.8	10.1	9.3	2.21	2.07	3.65	4.30	5.45	3.25	132¾- 81½	82	3.9
NEW JERSEY ZINC .... W.C. (mil.) '58–$32.4; '59–$35.9	N.A.	N.A.	N.A.	N.A.	.97	1.13	.41	1.77	3.52	1.00	32 - 21¼	22	4.5
PHELPS DODGE .... W.C. (mil.) '58–$163.4; '59–$164.1	171.3	142.5	16.0	12.5	2.71	1.77	3.75	3.41	4.09	3.00	70½- 43½	48	6.2
REVERE COPPER & BRASS .... W.C. (mil.) '58–$49.4; '59–$55.5	124.4	114.9	4.2	3.3	2.00	1.43	.94	3.77	5.16	2.00	54½- 37½	40	5.0
REYNOLDS METALS .... W.C. (mil.) '58–$137.3; '59–$207.8	239.4	216.1	8.1	6.1	1.10	.66	2.24	2.41	4.37	.50	81⅞- 43⅝	45	1.1
RHODESIAN SELEC. TRUST .... W.C. (mil.) '58–$9.1; '59–$9.1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	.17	.25	—	.09	2¾- 1¼	1½	6.0
ST. JOSEPH LEAD .... W.C. (mil.) '58–$40.0; '59–$42.6	44.7	45.2	8.1	5.5	1.34	.92	1.52	2.31	3.53	1.00	36½- 25¾	26	3.8
U.S. SMELT REF. & MINING .... W.C. (mil.) '58–$19.2; '59–$19.6	N.A.	N.A.	N.A.	N.A.	d.51	d.18	d3.41	d1.02	3.84	—	38¼- 26⅜	30	—

W.C.—Working capital.
***—Estimate of indicated dividend rate.**
d—Deficit.
N.A.—Not available.

Inspiration Copper: New Christmas mine rapidly approaching production. Anaconda holds a large stock interest. **B2**

International Nickel: World's largest nickel producer with huge reserves at its new Thompson mine. Important by-product copper production, also platinum. **A2**

Kaiser Aluminum: Third largest factor in U.S. aluminum industry. Kaiser Industries and Kennecott retain share interests. Stock is heavily leveraged by large senior debt. Earnings declined from $2.72 in 1956 to $1.17 in 1959 So far 1960 is holding. **B4**

Kennecott Copper: Largest copper producer in world with important molybdenum and gold output. Low cost production. Strong finances. **B2**

Magma Copper: Making strong comeback from depressed 1959 earnings which resulted from long strike at mines with earnings tentatively estimated at $4.00 per share this year as against a deficit of $2.08 per share in 1959. Cash dividends however, are unlikely until large debt to Government is repaid. **C3**

Mueller Brass: Well regarded fabricator but earnings affected by unfavorable conditions in brass industry. **B4**

National Lead: Depressed conditions in building, oil well drilling, and demand for die castings will probably affect earnings somewhat but company should report about the same as in 1959, when $4.30 per share was shown. The Cuban situation is disturbing, but the company only acts as contract operator and has no investment in these extensive facilities. **A2**

New Jersey Zinc: Operations presently seriously affected by strikes at mines and smelters. Second half earnings likely to be down. Has large zinc ore reserves. **B4**

Phelps Dodge: Second largest domestic copper producer with all mines in U.S. Low cost producer. Has 16 per cent interest in Southern Peru Copper Co. **B2**

Revere Copper & Brass: Strongly situated in fabrication of copper, brass and aluminum products. Has half interest with Olin Mathieson in Ormet, an important primary aluminum producer. Earnings this year are expected to be sizeably below 1959 net of $2.77 per share. Aluminum interestst enhance longer term prospects, however. **B4**

Reynolds Metals: Major integrated aluminum producer. Management highly aggressive. Has important British affiliate. **B2**

Rhodesian Selection Trust: Controlled by American Metal Climax. Has major interest in two high-grade Rhodesian copper mines. Profits increasing but outlook clouded by political risks. **B2**

St. Joseph Lead: Largest U.S. lead and important zinc producer. Interest with Bethlehem Steel in new iron mine in Missouri and important lead zinc mine in Argentina. **B2**

U. S. Smelting: Custom smelter of zinc, lead and silver and has mining interests in Utah and Alaska. Record generally successful in oil and gas drilling. Earnings have been depressed in recent years but some recovery is anticipated this year. **C3**

RATINGS: **A—Best grade.** **B—Good grade.** **C—Speculative.** **D—Unattractive.** **1—Improved earnings trend.** **2—Sustained earnings trend.** **3—Earnings up from the lows.** **4—Lower earnings trend.**

at the beginning of the year and today, a much more accurate picture would be available.

Contrast in Domestic and Foreign Demand

Copper—In the case of copper, deliveries to domestic fabricators for the first seven months of the year were about 13 per cent less than in the same period of 1959. Rather a sad commentary on the Soaring Sixties! The fabricators' own shipments to their customers in the same seven months were off over 11 per cent. Brass and bronze shipments through July were likewise off 13 per cent from 1959.

Fortunately for the copper industry, the situation has been wholly different abroad, where copper demand until very recently has been excellent. For the January-July period deliveries to foreign fabricators have shown steady increases since the first of the year, and the total of over 1,300,000 tons is more than 364,000 tons ahead of the comparable 1959 period.

► Copper production both in U.S. and abroad continues to increase. On a Free World basis, mine output totalled 2,039,000 tons for the first seven months of 1960, and including secondary recovery, came to over 2,145,000 tons. This compares with 1,852,000 tons in the same months of 1959. It is likely that if strikes or other work stoppages do not occur during the rest of the year world copper output will exceed 3,670,000 tons and establish a new year's record for the red metal, exceeding 1959 output by 700,000 tons.

► As against this, deliveries to fabricators seem unlikely to exceed a projected figure of 3,500,000 tons, leaving a surplus production of 170,000 tons. This would not be especially alarming if it were not true that in the last two months the excess production has been a much larger percentage. Thus, in July, refined production exceeded deliveries by 32,500 tons, or over 11 per cent, a contrast which makes it somewhat doubtful that world consumption in 1960 will reach the 3,500,000 ton mark. In 1959 deliveries were less than 3 million tons.

Threatened Interruptions Encourage Build-up of European Stocks

Meanwhile stocks of refined copper have been climbing, and at the end of July stood at 369,600 tons, the highest figure since 1957, equal to about six weeks supply at the July rate.

There always exists a continuing uncertainty as to whether copper production will be interrupted by strikes. The industry never has been free from strikes for any protracted period, and 1960 is unlikely to prove any exception. A work interruption in Chile or strife in the Katanga province in the Congo could upset all calculations, and bring world production quickly into balance with demand.

The possibility of such work stoppages has undoubtedly been a contributing cause for the high demand for copper in European markets, where consumers, with practically no mine production of their own, are vitally dependent on foreign metal for their supplies. The sensitive London metal market responds immediately to any rumored change in expected production. It leaped upward when a strike was threatened in Chile and again when strife broke out in the Congo, threatening Katanga shipments. As invariably happens, buyers follow the market upward, and it is probable that more copper was bought in anticipation of a shortage, than was actually consumed. Hence it seems a little doubtful, now that there is a calmer appraisal of the situation, whether the strong buying abroad will continue at the same pace that characterized the first half of the year.

Excellent Market Prospects Abroad

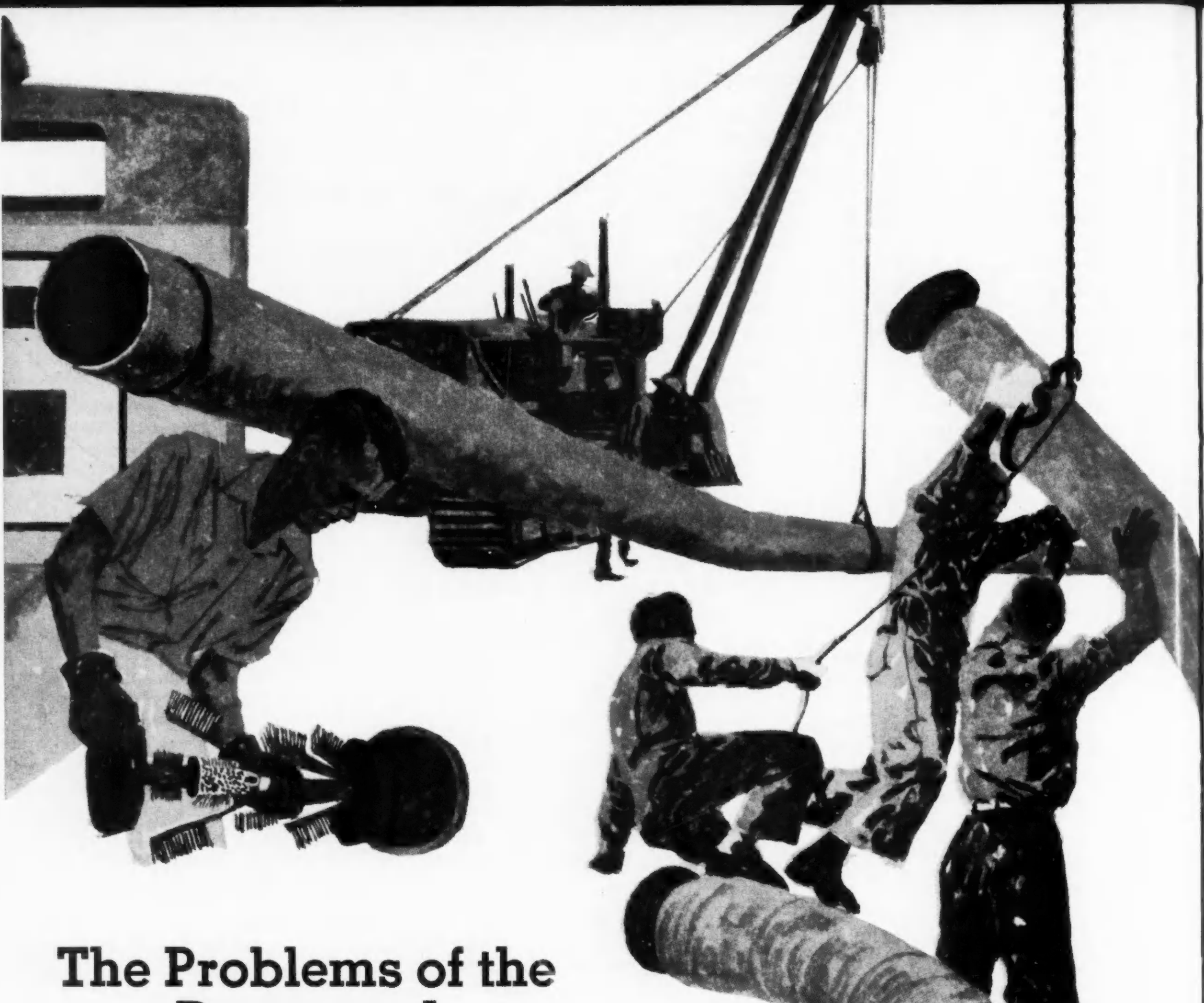
Nevertheless, a good case can be built up to support the contention that copper consumption abroad will continue to increase at a far faster pace than in the United States, where it is perfectly evident that during the last decade the demand curve has flattened out. A glance at the statistics confirms this: From 1946 through 1959 copper consumption in this country shows an almost negligible increase, from 1,261,000 tons in 1946 to 1,312,000 tons in 1959, of only 2 per cent. Per capita use was about 13½ pounds in 1959. Yet this per capita figure far exceeds that for Europe as a whole, and is immeasurably greater than for the undeveloped countries, such as India and Africa. The cry all over the world is for industrialization, and this means power, and power means copper. It's as simple as that. If per capita use increased even to a small fraction of the U.S. figure, all danger of a copper surplus would vanish and there might again be the bogey of a copper scarcity.

We don't like it, but the energetic rate of Russian industrial expansion cannot be denied, and Russia is short of copper. A U.S. Government study reveals that Soviet copper consumption in 1959 was about 700,000 tons while its production was only 460,000 tons, leaving a deficit of 240,000 tons to be obtained outside the Iron Curtain. This may explain the solicitude that Russia displays toward the Congo situation. If the Katanga production could be diverted to its use instead of being shipped to Belgium, it would be highly satisfactory to the Kremlin.

Surprising Stability in Copper Quotations

The present 33 cent price for copper in this country has been maintained for 9 months by the producers. This is an amazing achievement. The stability has resulted from buying to replace inventories depleted by the long copper strike in 1959, from the excellent business in the European Common Market and in Great Britain, and, as pointed out, from the fear of a repeated shortage if strikes materialize in Chile. Back of it all, however, has been the determination of the major producers to keep the price steady and avoid the wild gyrations of earlier years that drove customers away from an unpredictable copper market and turned them to competitive metals. That cost the copper producers heavily in business that may never be regained. It won't happen again if they can have their way.

There is good reason to think that future price changes in copper will be comparatively mild. Most of the world production is in the hands of strongly financed companies which do not have to push their copper on a weak market and which are in a position to curtail output for a long period to bring supply in step with demand. They have publicly stated their intention to do so if the occasion requires it. This sentiment has been voiced both here and abroad. *(Please turn to page 53)*



The Problems of the Depressed OIL EQUIPMENTS

— And a ray of hope

By EDWIN CAREY

► **Where slack in the oil industry affects the Equipments — and the new avenues and diversifications of the individual companies — their foreign subsidiaries**

► **Which companies are in the best position from an investment and specvestment evaluation**

DESPITE the depressed condition of the oil equipment producers, with their common stocks typically selling at below one half the previous highs, a few industry spokesmen are beginning to see faint patches of blue sky in the murky overcast that shadows the industry. **J. Ray McDermott & Co.** looks for higher earnings this year. **Halliburton** expects some improvement in the second half of 1960 over the first half. However basic problems persist.

Both oil well completions and activity of rotary rigs in the U.S. continue at a level considerably below the 1959 rate. This has surprised some of the producers in the oil equipment business, who earlier

this year were predicting a moderate increase in these two indicators to help their companies show an earnings improvement this year. Emphasis is now being turned with renewed vigor to cost-cutting methods and toward diversification programs.

Drilling Activity Turning Up Slightly From First Half Rate — But Will Trend Continue?

Oil well completions, down about 13% during the first half of 1960 from a year ago, are showing signs of mild improvement from the rate for the first half, but on balance 1960 completions may approximate only 46,000 wells, down nearly 10% from 1959. The American Association of Oilwell Drilling Contractors recently reported that 1,710 rotary rigs were in operation at the end of August, up slightly from earlier levels, but well under the 2,140 of a year ago; rotary rigs account for 90% of all drilling activity. However it appears to be a little early for optimism concerning an upturn, and W. L. Banker, Executive Vice-President of the Association, rules out the possibility of substantial upturn during the rest of 1960. The May-June upturn turned out to be a flash in the pan.

Activity of producing wells is also down in the United States, with allowable producing days in Texas cut 20% during the first half of this year vs. a year ago. With little sign of an upturn in this area, the market for machinery and parts used for movement or transportation of oil continues depressed.

A Temporary Situation?

If one were convinced that the situation in the oil industry, and hence in the oil equipments, is merely a temporary maladjustment, then an intriguing recovery potential exists in the stocks. For example, purchase of **Halliburton,** a quality investment with a large cash flow and a handsome cash reserve, may be effected in the upper thirties for a possible recovery to its 1956 high of 92. Meanwhile, the current 6.4% yield on a well-covered dividend would seem ample reward for patience on the part of the long term holder.

Other companies such as **Dresser Industries** promise a recovery potential of 170% from 21 to the 1957 high of 57, and **J. Ray McDermott** 130% to its more recent high of 53 in 1959, although the stock sold as high as 62 in 1957. For such potential an investor willing to wait several years would be inclined to buy the stocks at this level if he thought that the risk of a further decline is now minimized with some turnaround in business likely to start soon. But, under today's conditions, no one can predict the course of events, so that one should await clarification before investing in the shares of the various companies above referred to.

Besides, as the matter stands today, the problem seems to be more than just a temporary maladjustment. As pointed out in the August 27, 1960, issue of The Magazine of Wall Street, a number of basic changes have taken place in the oil industry. Chairman Campbell of Halliburton recently pointed out that the growth rate in domestic oil demand averaged 7% per year in the decade following World War II compared with a growth rate in total primary energy of only 3.3%. But by 1956 two thirds of the energy market was captured by oil and naturally oil cannot continue to grow at a substantially faster rate than the total energy market, for very much longer. *Petroleum now comprises 73% of the total energy market and its future growth will have to be slower than in the past.*

In addition growth in European demand, stemming from replacement of high-cost coal deposits with oil, may be slowing down as industry there becomes largely converted to oil. With world oil production greatly expanded, especially in North Africa, large supplies of low-cost foreign oil are at a point

Statistical Data on Leading Oil Field Equipment Companies

	1st 6 Months: Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	Net Profit Margin 1959 %	Net Profit Margin 1960 %	Net Per Share 1959	Net Per Share 1960	Full Year: Earned Per Share 1958	Earned Per Share 1959	Cash Earn. Per Share 1959	Indic. 1960 Div. Per Share *	Price Range 1959-60	Recent Price	Div. Yield %
BLACK, SIVALLS & BRYSON ...... W.C. (mil.) '58–$20.3; '59–$19.0	$21.5	$17.8	2.3%	d1.4%	$ .78	$d.71	$1.37	$ .59	$2.87	—	26½- 11	14	—
DOVER CORP. .... W.C. (mil.) '58–$11.6; '59–$12.7	17.6	16.9	7.4	5.1	1.35	.86	2.01	2.60	3.49	$1.20	27½- 18⅜	19	6.3%
DRESSER INDUSTRIES .... W.C. (mil.) '58–$91.5; '59–$103.7	110.7	114.4	4.2	3.3	1.01	.82	2.14	1.95	3.63	1.20	45⅛- 19¼	21	5.7
HALLIBURTON CO. .... W.C. (mil.) '58–$60.5; '59–$66.9	94.0	88.7	8.2	6.3	1.85	1.34	3.38	3.75	8.08	2.40	71½- 35⅜	38	6.3
MC DERMOTT (J. RAY) & CO. ... W.C. (mil.); '58–$24.6; '59–$23.4	13.2[1]	11.9[1]	7.4	1.8	.39[1]	.08[1]	2.05	1.32	4.47	.60[2]	48 - 19¾	23	2.6
PARKERSBURG-AETNA CORP. .. W.C. (mil.) '58–$8.7; '59–$8.5	11.1	12.2	1.4	2.0	.20	.32	.41	.70	1.53	—	12⅞- 8¾	9	—
REED-ROLLER BIT CO. .... W.C. (mil.) '58–$13.2; '59–$12.9	14.5	13.3	d.1	.6	d.04	.13	d.43	d.19	1.60	—	27⅜- 13¾	16	—

W.C.—Working capital.
*—Estimate of indicated rate.
d—Deficit.

1—1st fiscal quarter ended June 30.
2—Plus stock.

where they may depress the world market for some time to come. With the U.S. now imposing import quotas little incentive exists to go out and drill for more oil, and drilling is an important market on which many of the oil equipment suppliers depend. Thus, these companies must content themselves with a core of replacement business which, although reliable in nature, is far smaller than the new equipment demand of a few years ago. Prices of oil well equipment at times have been weak as the companies, eager to use excess productive capacity, compete for the reduced volume of business.

Tax Laws A Blessing?

To provide an incentive for increasing oil reserves in the U.S. the government grants a tax advantage to the oil companies, not only for depletion on existing wells making successful discoveries extremely profitable, but also in the form of an allowance for drilling. The companies for tax purposes may deduct drilling costs as an expense rather than setting it up as a capital expenditure. Thus, failure to drill results in a higher taxable income. But for this factor drilling activity would almost certainly have dropped off far more than it has. Such tax-stimulated exploration is favorable for such companies as Dresser and Halliburton that depend to a considerable extent on drilling activity.

Import Controls Helped

Capital expenditures by domestic oil companies dropped off rapidly when foreign crude began to flood into the U.S. a few years ago. While there has been only a slight pickup in spending since, the downward trend did stop abruptly with the imposition of import quotas. With foreign oil supplies little changed, it appears that the quotas will be maintained for some time. *But should they be removed, it would be a bearish factor for the oil equipments.*

Reserves Must Be Maintained

The government is understandably eager to encourage drilling activity. Many oil men have agreed that the present rate of drilling is not sufficiently adequate over the long term to replace depleted domestic reserves with new discoveries. *To maintain our reserves it has been estimated that an average of 57,000 oil and gas wells must be drilled over the next ten years, with the drilling rate reaching no less than 70,000 wells by the end of the '60's. This compares with 50,500 wells drilled in 1959, and only 46,000 estimated for 1960. In addition the wells are trending deeper with something over 4,100 feet the current average depth compared with 3,689 feet in 1950 and 3,345 feet in 1946.*

Since the capital cost of drilling increases rapidly with every 100 feet below 3,500, this tendency favors sellers of logging and cementing services as well as manufacturers of all other equipment including drilling and pumping items and pipe.

Foreign Markets

Foreign drilling activity has done better than upon the domestic scene, with new fields being developed rapidly in North Africa, and despite some slow-down in drilling in the Middle East and Venezuela. Most of the oil equipment suppliers are international in scope, a situation that appears quite logical when it is realized that an estimated five sixth of of the world's oil reserves are located outside of the U.S.

For example, **Dresser** both exports oil field equipment and produces abroad under license, its largest licensee being in Great Britain with others in France and Latin America. *Argentina, traditionally an importer of oil is now approaching self-sufficiency through its program to increase domestic production, thus creating an unusually good market for oil field equipment in both 1959 and 1960.*

While Dresser derives about 25% of its sales from foreign business, a large part of this is from the export of machinery made in its domestic plants.

Halliburton, on the other hand, derives most of its foreign sales from foreign-based oil well service operations, the relative importance of which is approximately 17% both of total revenues and of total net income. Some price cutting has apparently shaved the profit margin of its foreign business, however, since Halliburton's 1958 results showed foreign sales at 18% of total sales, but contributing about 20% of net income.

J. Ray McDermott has only recently moved into the foreign field and has found that it takes time to get established. The company is now working on contracts in 20 to 25 locations over the world. As a specialist in the manufacture of offshore oil platforms it should enjoy large opportunities both in the Middle East and in South America.

Diversification Into Other Fields

In the light of the basic difficulties in the oil business it is not surprising that the oil equipment suppliers are looking into other fields.

Dresser is emphasizing its sales to the natural gas industry, which contribute about 25% of its gross, and where capital expenditures have increased somewhat, following the mildly favorable Memphis Decision. Sales of engines, compressors and other equipment to the government, and to industrial markets, now amount to about 17% of Dresser's total sales. In addition the company builds radio and television towers, one recently completed in Missouri being the tallest structure in the world, at 1,675 feet. This division also has Strategic Air Command contracts for work on antennas in the worldwide air-to-ground system as well as for some of the supporting electronic feed systems.

Halliburton has applied its drilling and cementing methods to general construction in applications where water or gas must be sealed off. Some of its materials' handling methods for dry, powdered cement may also find possible wider utilization in the cement industry.

Relatively more diversified **Dover Corp.,** which has a strong trade position in hydraulic auto lifts, also produces freight and passenger elevators. In addition, its Peerless Division produces a full line of gas unit and space heaters for both home and industrial use, as well as a line of fireplace fixtures. **Black, Sivalls & Bryson** produces steel tanks for grain storage as well as for numerous other uses, both solid and liquid, as well as heating equipment; in both cases this is in addition to the normal line of oil field equipment.

Individual Companies

The following remarks briefly review the leading companies in the oil *(Please turn to page 46)*

WHERE DOES PAPER INDUSTRY STAND TODAY?

— And looking to the next two years

By BURTON H. WHEELER

- **Where strengthening of industry avoids the crippling price wars of the past — how major companies are now fully integrated . . . new consolidations — disturbing factor of government's anti-merger campaign**
- **New breadth and scope through intensified research under keen competition — new products in aggressive fight against intruders from other fields**
- **Growing U.S. production in newsprint — advance in paper products against plastics in container field — developing market in bags and paper board — new peak in output**
- **Varying earnings-dividend outlook for individual companies — general problem of declining profit margins — wage-price spiral where price rise is uncertain — prospects looking to 1961-62**

THE paper industry faces a mixture of opportunities and problems that is so frequently encountered in the modern business picture. Despite the inevitable fluctuations, stability in sales and earnings has really been excellent, particularly as contrasted with most other industries. And all forecasts indicate a continued rapid growth in the usage of paper and allied products.

But in common with so many other major industries, paper is experiencing considerable difficulty in translating its sales gains into higher profits. A few price increases have been put into effect, but keen competition has tended to block a pass-through of higher labor costs in the form of higher prices. Increased manufacturing efficiency has so far proved only a partial answer to the resultant profits squeeze. Fortunately, the industry is much stronger than it was a few decades back and the existing

Statistical Data on Leading Paper Companies

	1st 6 Months: Net Sales 1959 (Millions)	1st 6 Months: Net Sales 1960 (Millions)	1st 6 Months: Net Profit Margin 1959 %	1st 6 Months: Net Profit Margin 1960 %	Net Per Share 1959	Net Per Share 1960	Full Year: Earned Per Share 1958	Full Year: Earned Per Share 1959	Full Year: Cash Earn. Per Share 1959	Indic. 1960 Div. Per Share *	Price Range 1959-60	Recent Price	Div. Yield %
CHAMPION PAPER & FIBRE ...... W.C. (mil.) '58–$42.8; '59–$45.3	$47.8[3]	$52.6[3]	5.3%	4.0%	$.55[3]	$.43[3]	$1.64	$1.98	$4.16	$1.20	50¾- 27	28	4.2%
CONTAINER CORP. .... W.C. (mil.) '58–$24.8; '59–$29.6	155.9	158.1	6.1	6.3	.90	.92	1.41	1.83	2.97	1.00	30¾- 21¾	22	4.5
CROWN ZELLERBACH .... W.C. (mil.) '58–$5.6; '59–$5.9	257.3	275.7	7.4	7.3	1.35	1.42	2.32	2.76	4.58	1.80	60⅝- 39¾	47	3.8
DIAMOND NATIONAL .... W.C. (mil.) '58–$60.7; '59–$61.9	103.5	111.4	4.2	6.1	.98	1.45	1.99	2.15	4.44	1.20	66⅜- 46	63	1.9
FEDERAL PAPER BOARD .... W.C. (mil.) '58–$18.9; '59–$22.0	39.5	39.2	6.2	4.7	1.81	1.30	3.74	4.02	6.78	2.00	56½- 34¾	35	5.7
FIBREBOARD PAPER PROD. .... W.C. (mil.) '58–$52.0; '59–$49.3	58.1	54.6	4.6	2.3	1.55	.73	2.81	2.73	5.61	1.40	57⅜- 28½	29	4.8
GREAT NORTHERN PAPER .... W.C. (mil.) '58–$21.6; '59–$24.2	25.5	27.8	2.5	4.3	.03	1.18	.64	1.78	7.71	1.00	60¼- 40⅛	42	2.3
HAMMERMILL PAPER .... W.C. (mil.) '58–$14.5; '59–$10.8	29.8	30.9	5.0	5.3	1.22	1.28	2.12	2.44	5.20	1.20	36¼- 26	30	4.0
INTERNATIONAL PAPER .... W.C. (mil.) '58–$214.0; '59–$230.8	505.5	519.0	7.9	7.3	3.05	2.81	5.46	6.21	10.58	3.00	141¾- 94⅜	95	3.1
KIMBERLEY-CLARK CORP. .... W.C. (mil.) '58–$96.3; '59–$88.2	368.2[1]	403.7[2]	7.1[1]	7.7[2]	3.01[1]	3.51[2]	3.01[1]	3.51[2]	4.86[2]	1.80[5]	82 - 59	79	2.2
KVP SUTHERLAND PAPER .... W.C. (mil.) '58–$21.4; '59–$27.5	89.8[4]	94.8[4]	3.8	4.1	1.55[4]	1.78[4]	2.30	2.66	3.81	1.40	47 - 20⅛	30	4.6

W.C.—Working capital.
*—Estimate of indicated dividend rate.
[1]—Year ending April 30, 1959.
[2]—Year ending April 30, 1960.
[3]—Quarter ended June 30.
[4]—9 months ended June 30.
[5]—Plus stock.

Champion Paper & Fibre: Integrated producer of printing and fine papers as well as food packaging. Company has good long-term potential, although current earnings have levelled-off. Recent move into plastic containers has good growth possibilities. **A2**

Container Corp.: A leader in paperboard products including shipping containers and boxes. Little earnings improvement expected this year. Domestic competition is keen. Foreign operations are an important factor. **B2**

Crown Zellerbach: Second largest paper company with important Canadian interests. Also produces lumber and plywood. Serves western markets primarily, but expanding in the East. Earnings this year may moderately exceed 1959. **A1**

Diamond National: Formerly Diamond Match: unimpressive past earnings record. Bulk of sales now in pulp, boxboard and other products. Expansion of packaging operations could result in improved earnings performance. **B1**

Federal Paper Board: Third largest producer of folding boxboard, converts about half of output into cartons and sells the balance to other processers. Price weakness and competition has reduced recent earnings. **B4**

Fiberboard Paper Products: Primarily a producer and converter into containers. Also, building products. Entrance of eastern producers into this company s West Coast area may slow down its future rate of growth. **B4**

Great Northern Paper: Largest U.S. producer of newsprint, competing with favorabiy situated southern mills. Despite cost absorption, higher operating rate this year has led to good boost in carnings. Company is modernizing facilities. **B1**

Hammermill Paper: A leader in fine papers, with large interest in Rayonier. Expansion of hardwood pulping facilities is improving the company's cost position, and primary papermaking capacity will be increased in 1961. These programs enhance earnings potential. **B2**

International Paper: The largest paper producer, wtih greater part of its capacity in paperboard, newsprint and kraft papers. Strong basic position with substantial timber reserves and active in the lumber business. Current carnings reflect competitive factors. **A2**

Kimberly-Clark: The leading producer of household papers, including Kleenex. Also, book paper. Company continues to show better-than-average growth and carnings may again reach a peak in the current fiscal year. **A1**

K V P Sutherland Paper: Created by recent merger, company faces possible government opposition to the consolidation. While past carnings performance is not impressive, company's line of food and consumer goods packaging has growth potential. **B1**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

overcapacity no longer brings on the destructive price-cutting that was formerly characteristic of the industry.

Some escape from the narrowing profit margin trend must, however, be discovered. Large-scale merger is one solution, although this program has been largely blocked by the government. It is possible that paper companies will find their salvation on an individual basis, as they introduce new products and usages or expanded into allied fields.

Several producers have, by vigorous cost-cutting efforts, been able to show a limited rise in earnings this year; but even in these cases, the profit gain often was not commensurate with the sales increase. The companies which make tissues and other "growth" consumer products have also been able to do better than the paper industry as a whole: **Scott**, **Kimberly-Clark** and **Lily-Tulip** for example, have all continued to enjoy the strong sales and earnings trends that have distinguished them in the past.

But the industry, excluding container makers, showed a decline of about 1½% in net profits in the first half of this year compared with the first half of 1959. And the second half may make an even poorer comparison with last year, barring an unlikely rise in prices. Such slippage in profits is indi-

Statistical Data on Leading Paper Companies—(Continued)

	1st 6 Months: Net Sales 1959 (Millions)	Net Sales 1960 (Millions)	Net Profit Margin 1959 %	Net Profit Margin 1960 %	Net Per Share 1959	Net Per Share 1960	Full Year: Earned Per Share 1958	Earned Per Share 1959	Cash Earn. Per Share 1959	Indic. 1960 Div. Per Share *	Price Range 1959-60	Recent Price	Div Yield %
LILY-TULIP CUP W.C. (mil.) '58–$21.4; '59–$22.5	$45.4	$47.0	7.3%	7.6%	$1.05	$1.13	$1.88	$2.07	$2.97	$1.00	63½- 47¼	50	2.0%
MEAD CORP. W.C. (mil.) '58–$45.7; '59–$50.1	144.4	157.0	4.3	4.1	1.24	1.26	2.23	2.63	4.85	1.70	51 - 31½	33	5.1
MINN. & ONT. PAPER W.C. (mil.) '58–$23.3; '59–$23.8	43.6	44.2	6.6	7.2	1.13	1.24	1.95	2.30	4.48	1.60	38 - 28	30	5.3
OXFORD PAPER W.C. (mil.) '58–$15.7; '59–$15.3	36.5	38.7	3.7	4.2	1.10	1.39	2.13	1.77	5.73	1.00	38⅝- 25	26	3.8
RAYONIER W.C. (mil.) '58–$38.6; '59–$55.0	65.7	69.6	10.0	8.3	1.20	1.03	.65	2.35	4.78	.80	30⅜- 16⅜	17	4.7
ST. REGIS PAPER W.C. (mil.) '58–$107.2; '59–$112.0	229.5	248.0	6.1	4.7	1.54	1.20	2.41	3.01	5.51	1.40[2]	56¾- 24½	35	4.0
SCOTT PAPER W.C. (mil.) '58–$55.8; '59–$60.7	146.6	157.8	8.1	8.5	1.48	1.66	2.75	3.08	4.85	2.20	93¼- 71½	86	2.5
STANDARD PACKAGING CORP. W.C. (mil.) '58–$15.5; '59–$19.2	65.3	66.6	4.4	4.9	.90	1.01	2.74	1.80	3.32	—	39⅝- 24	28	—
UNION BAG-CAMP. PAPER W.C. (mil.) '58–$24.9; '59–$27.3	99.5	111.1	10.1	9.1	1.30	1.31	2.13	2.57	3.87	1.50	51 - 30½	31	4.8
WEST VA. PULP & PAPER W.C. (mil.) '58–$65.6; '59–$76.3	171.6[1]	183.6[1]	5.0	4.7	1.63[1]	1.66[1]	1.78	2.21	5.34	1.20	61 - 37	39	3.0

W.C.—Working capital.
*—Estimate of indicated dividend rate.

1—9 months ended July 31.
2—Plus stock.

Lily-Tulip Cup: A leader in paper cups and containers with strong growth trend. With demand still rising, new products being developed, and facilities expanded, sales and earnings should continue upward trend. **B1**

Mead Corp.: Integrated producer of white paper and paperboard. Emphasis is on research and expansion; this, together with additional converting and merchandising facilities, enhances outlook. Operations, however, still remain competitive. **B2**

Minnesota & Ontario Paper: Company has well established, integrated position in newsprint, specialty papers and structural insulating board. Basic trend and demand for the company's products is upward. **B1**

Oxford Paper: Maker of book, commercial and printing paper of which about one-half is sold to magazine publishers. Company has enjoyed a good sales rise and is strengthening its position through modernization and expansion. **B1**

Rayonier: Company is the largest producer of chemical cellulose, used in making rayon and cellophane. Competition is intense, prices have been reduced and near-term earnings outlook is clouded. **C4**

St. Regis Paper: A leading integrated producer of kraft and printing papers, company has broadened its operations in recent years through expansion and acquisition. Company has felt profit squeeze keenly. Good long-term outlook. **B4**

Scott Paper: This highly aggressive company is the largest producer of sanitary paper. Through acquisitions and integration the product line has been expanded and new marketing areas opened. Continues to show strong growth trend **A1**

Standard Packaging: An integrated manufacturer of packaging materials, paper products, and pulp paperboard. Recent acquisitions include Brown & Bigelow, a producer of specialty items. **E2**

Union Bag-Camp: Company is an important producer of kraft paper and board. About half of output is converted into bags and corrugated boxes. Above average profit margins are maintained despite intense competition. Pending FTC action, trade position of company is strong. **B2**

West Virginia Pulp & Paper: Important and well integrated producer of white printing and converting paper, as well as kraft paper and board. A program of better integration and additional converting facilities adds to earnings potential. **A2**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

cated by further softening in paper sales, due to inventory cutting on the part of consumers, and from more cost absorption by paper producers as labor costs continue to go up.

Labor's Share Rising

Labor costs are rising about 4% this year, mostly under two-year contracts signed in 1959 by paper companies. The impact of this steady climb in labor costs is shown by an analysis of the industry's labor costs, expressed as a percentage of net sales, during recent years. In 1955, salaries and wages represented only 25 cents on each sales dollar. But by last year this ratio had risen to 28 cents This increase in labor's share of the sales dollar reflects not only the steady march of wage increases; it also shows that the paper companies have been unable to boost prices sufficiently to offset such increases. In many cases, productivity has been held back by starting-up costs on new plants.

The large paper producers are now fully integrated vertically with operations going back to the forests and horizontally into lumber and plywood production. The decline in home building this year has injured profits in the lumber segment of the industry. The current *(Please turn to page 48)*

FOR PROFIT AND INCOME

Once More

A number of market sell-offs have started shortly before or after Labor Day, and now we have had another one. But they have nothing to do with tradition or seasonal tendencies. They result, as do declines in any period of the year, from a weakened technical position and/or apprehension about prospects for business and corporate earnings. This one should be no surprise. Investment confidence in stocks, and especially in cyclical issues, has been deteriorating for an extended time. No rally has approached the tops made in early January by the industrial average and by rails as far back as July, 1959. The July-August upturn stopped well short of the rally level reached early in June. Hopes for autumn business improvement have been largely watered down, fears of 1961 recession increased. Few stocks are currently strong, many weak. The industrial average made "triple lows" around the 600 level on March 8, May 2 and July 25. They could be tested or broken without much delay. The case for a cautious investment policy right now appears conclusive.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Kayser-Roth Corp.	Year June 30	$1.92	$1.43
Texas Gulf Producing	6 mos. June 30	.60	.52
Texas Utilities	Quar. July 31	.83	.77
Twentieth Century-Fox Film	26 weeks June 25	1.10	.76
Utah Power & Light Co.	12 mos. July 31	1.90	1.84
Commonwealth Edison Co.	12 mos. July 31	3.87	3.67
Consolidated Foods	Year June 30	2.27	1.89
Illinois Power	12 mos. July 31	2.90	2.44
Hertz Corp.	6 mos. June 30	1.00	.79
Carpenter Steel Co.	Year June 30	3.50	2.33

What Price Steel?

Steel wages go up again on December 1, adding appreciably to the per-ton cost of steel production. But a general price boost is not assured, due to restricted demand and competition from some steel imports and from other materials. So profits might be squeezed further. Some marginal, high-cost producers are currently in the red. And, on average, excess capacity and demand limitations seem likely to be more of a problem in 1961 than in 1960. It is no wonder that rallies in the steel stock group have been feeble and that general weakness is currently the rule. If you hold steel shares, the risk of possible further decline should not be ignored. There is nothing to indicate that they are yet sold out.

Trade Competition

As a result of sluggish demand, especially for hard goods, and of expansion in the number of stores, most retailers are now feeling pressure on margins. A number of first-half earnings reports—mostly for the six months ended

July 31—made poor reading. Some of the stocks are pointing downward. Others, including some recommended here earlier, remain at advanced levels. Examples include Associated Dry Goods, Federated Department Stores, Gimbel Bros. and Penney. They are much better holdings than heavy-industry shares—but they are not defensive income stocks in the sense that utilities, foods and some other groups are. Some judicious profit taking appears in order.

Inside the Market

In recent trading sessions to this writing, stock groups gaining ground or easing considerably less than the general market include air lines, banks, baking, coal (probably on technical grounds alone), dairy products, finance and small-loan stocks, food brands, office equipments, department stores, domestic oils, shipbuilding, natural gas stocks, electric utilities, insurance stocks and tobaccos. The weaker-than-average groups at this time include aluminum, automobiles and auto parts, building materials, chemicals, coppers, drugs, electrical equipment, appliances and TV-electronics, meat packers, machinery, railroads, steel and tires. On the whole, despite exceptions here and there, the flow of funds is out of cyclical-type stocks and into defensive issues.

Oils

The weekly charts suggest that most oil stocks, and especially those of companies wholly or primarily domestic, may have been sold out. On balance, institutional funds seem to have halted liquidation; and some have recently added to oil holdings following a long period of bearishness. Since all values in stocks are relative, it is reasoned that the oils are already "down there," that earnings are not too bad, that some dividend yields are fairly good and that eventual improvement in the industry's situation is likely. However, individuals cannot make dollar-averaging purchases as the fund managers can, nor wait as patiently for "eventual" results. Basis for any broad rise in oil shares remains absent and rally possibilities appear limited. The fact of excess supply is basic. So is the fact of a slowed rate of growth in domestic consumption, due to competition of natural gas for use in home heating and the adverse effect of compact automobiles on average gasoline consumption per car. Leverage for any material general rise in earnings and dividends cannot be cited. Moreover, indefinite continuation of the 27½% depletion allowance for tax purposes cannot be taken for granted. Needing more money, the Government, under Kennedy or Nixon, may take a harder look at this "loophole," among others. Any significant reduction in the depletion allowance could lower earnings materially. While deflated stock prices argue against a bearish policy on oils here, the limitations and uncertainties in the picture argue against an aggressive buying policy.

Strong Stocks

Stocks currently performing well and apparently offering further upside possibilities include: American Telephone, American Tobacco, Borden, Boston Edison, Bush Terminal, Corn Products, California Packing, Coca-Cola, Consolidated Cigars, Consumer Power, Heller, Hercules Powder, Household Finance, International Shoe, Lehn & Fink, Munsingwear, National Biscuit, Penick & Ford, Philip Morris, Shattuck, Twentieth Century-Fox, United Artists and Walgreen. It is worth noting that these stocks have one thing in common. There is no heavy-industry issue in the list.

Weak Stocks

Space precludes listing more than a small number of the stocks which are performing worse than the market and which may be vulnerable to further pressure. Some representative examples are Admiral Corp., Allis-Chalmers, Alpha Portland Cement, Alcoa, American Steel Foundries, Ampex, Bethlehem Steel, Beaunit Mills, Bridgeport Brass, Blaw-Knox, Burlington Industries, Carter Products, Clark Equipment, Crane, Crucible Steel, Flintkote, Foote Mineral, General Electric, Goodrich, Link-Belt, Ingersoll-Rand, International Paper, Montgomery Ward, Outboard Marine, Philco, Schering, Stauffer Chemical, Union Carbide, Vanadium Corp., White Motor and Whirlpool Corp.

Air Conditioning

Fairly temperate summer weather in large areas of the country cut into sales of room-unit air conditioners this season, in addition to the generally sluggish consumer demand for most home appliances. Industry sources figure that unsold air conditioners by the year end will approach 500,000 units, against about 375,000 at the close of 1959. The carryover will be at the expense of 1961 output and will intensify competition at the retail end. Air conditioning has proved a disappointing field for investment. There has been large growth of volume, but profits have lagged—and future growth will be slower, due to increasing saturation of the home market. A number of makers mainly of other products have diversified into air conditioning. Carrier Corp., the original specialist in it, has largely diversified into other lines. Its peak profit was $5.00 a share in 1956. This year it will be much under 1959's $3.62. In the room-unit field, Fedders Corp. has gained ground and made a respectable profit showing, but on

(Please turn to page 56)

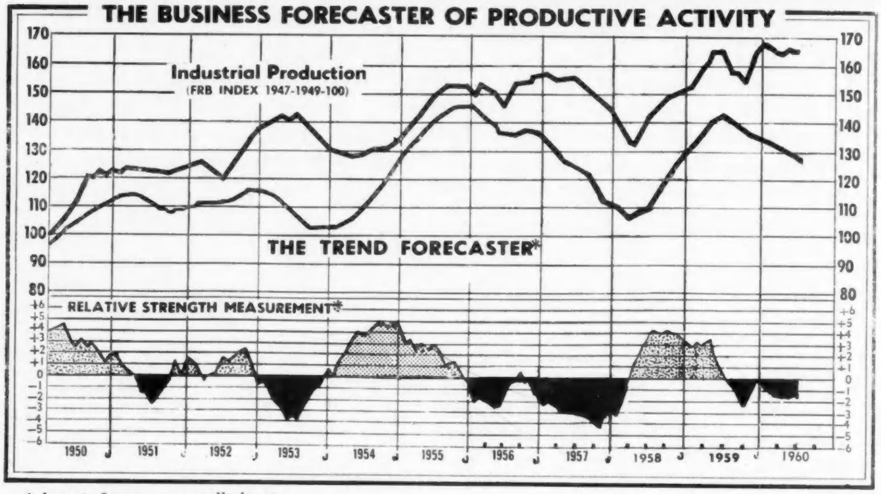
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
American & Foreign Power	12 mos. Mar. 31	$1.17	$1.71
Archer-Daniels-Midland	Year June 30	2.31	3.38
Associated Dry Goods	Quar. July 30	.33	.38
New York Central R.R.	7 mos. July 31	.43	1.47
ACF Industries, Inc.	Quar. July 31	1.06	1.38
Chain Belt Co.	9 mos. July 31	2.48	3.26
Montgomery Ward	26 weeks Aug. 3	.34	.78
Hires (Charles E.) Co.	9 mos. June 30	.10	.41
Ampex Corp.	Quar. July 31	.05	.11
St. Louis-San Francisco Rwy.	7 mos. July 31	1.46	1.61

the Business

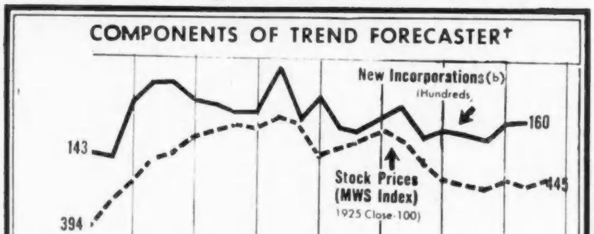
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

On the basis of the most recent figures available, the components of the Trend Forecaster continue in a mixed trend. Durable goods orders and housing starts have continued their persistent decline. Hours worked, which have been declining irregularly since the early months of the year, fell relatively sharply in August. Stock prices rose in August, but have since fallen and commodity prices have followed a similar pattern; business failures improved in July, new incorporations have held steady and nonresidential construction contracts have gained.

The Relative Strength Measurement, which summarizes the behavior of all eight indicators, has been stable at between minus one and minus two since the early months of the year. Its present position does not suuggest a strong seasonal pickup this Fall and Winter; in fact the closest historical parallel to its recent trend is the Spring of 1957 (see chart). The failure of the Measurement to sink to the minus three range thus far still suggests, at worst, a mild downward drift in coming months, similar to the mild downtrend of the third quarter.

Analyst

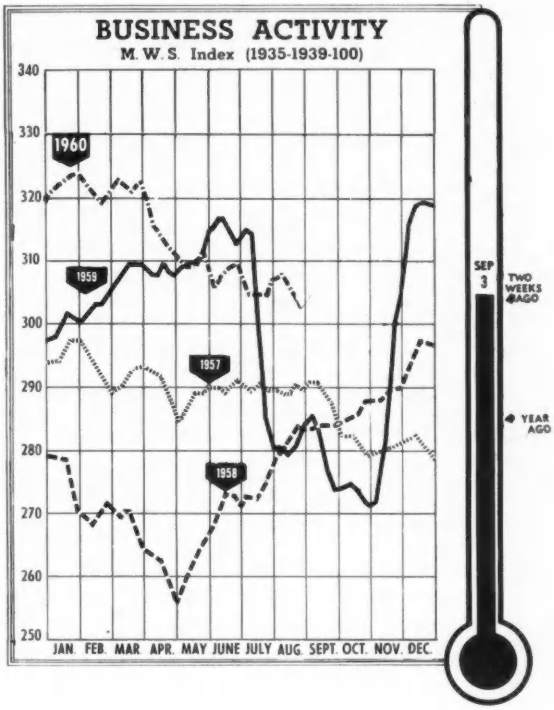
CONCLUSIONS IN BRIEF

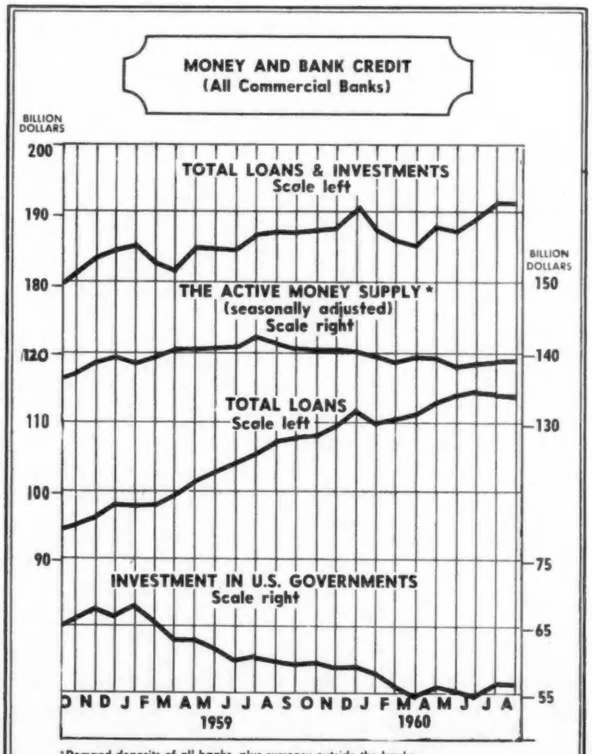
PRODUCTION — drifting slowly downward, reflecting delayed recovery in steel, some weakening in textiles in recent weeks, easing in some metal fabricating lines, offset by rising auto production. Outlook: further easing of general output in next two months.

TRADE — in July and August, ran a few percentage points below the second-quarter rate, with weakness in durables partly offset by strength in soft-goods. Plateau at present level probable into November.

MONEY & CREDIT — with banking system already liquid, loan demand remains only moderate to weak. Long-term rates have been steady in recent weeks but some lowering of rates is expected this Fall as easing business activity reduces demand for funds.

COMMODITIES — continued reports of pressure on finished goods prices ranging all the way from textiles to tires. Prices of materials purchased by manufacturers, where all of the recent inventory adjustment has been occurring, are reported to be firming. Outlook: more pressure on finished goods prices ahead.





*Demand deposits of all banks plus currency outside the banks.

IN the early fall, the behavior of business continues to perplex analysts, and the historical parallels which forecasters have depended upon for many years seem to be of little value in the present situation. About the only conclusion on which there is now wide agreement is that the business ground has not been well prepared for the seasonal expansion customary in the fall. To put this more narrowly and more technically, business in the late summer appears to have entered on a downtrend, after seasonal adjustment, with the trend quite apparent in the private sector, but partly offset in aggregate statistics by a rising level of government activity.

During the summer, automobile sales and residential construction activity — two markets which together aggregate between $35 billion and $40 billion of high-powered durables activity — have declined notably, and no offset in the private sector has appeared to cushion the decline. As a result, employment has weakened, personal income has stabilized, the industrial production index has evidently lost a little ground, and the biggest aggregate of them all — gross national product — has failed to rise. The behavior of these broad measures of economic activity is consistent with a slow slide in general business, and for the investor they are suggestive of a not-so-slow decline in corporate profits. Here is a quick rundown on the complexion of business in the early fall; it is offered mainly as a guide to those areas that deserve the most watching over the next two quarters.

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	July	166	166	163
Durable Goods Mfr.	1947-'9-100	July	171	171	171
Nondurable Goods Mfr.	1947-'9-100	July	163	162	159
Mining	1947-'9-100	July	128	126	123
RETAIL SALES*	$ Billions	Aug.	18.2	18.2	18.1
Durable Goods	$ Billions	Aug.	5.7	5.7	6.1
Nondurable Goods	$ Billions	Aug.	12.5	12.5	12.0
Dep't Store Sales	1947-'9-100	Aug.	145	149	144
MANUFACTURERS'					
New Orders—Total*	$ Billions	July	29.4	30.1	30.8
Durable Goods	$ Billions	July	14.1	14.3	15.5
Nondurable Goods	$ Billions	July	15.3	15.8	15.3
Shipments*	$ Billions	July	30.6	30.8	30.9
Durable Goods	$ Billions	July	14.8	14.9	15.4
Nondurable Goods	$ Billions	July	15.8	16.0	15.5
BUSINESS INVENTORIES, END. MO.*	$ Billions	July	93.3	93.4	89.9
Manufacturers'	$ Billions	July	54.9	55.1	52.2
Wholesalers'	$ Billions	July	13.0	13.0	12.5
Retailers'	$ Billions	July	25.4	25.3	25.1
Dept. Store Stocks	1947-'9-100	July	164	161	155
CONSTRUCTION TOTAL—†	$ Billions	Aug.	54.5	55.0	54.8
Private	$ Billions	Aug.	38.4	38.6	39.1
Residential	$ Billions	Aug.	21.3	21.8	22.5
All Other	$ Billions	Aug.	17.1	16.8	16.6
Housing Starts*—a	Thousands	July	1173	1298	1342
Contract Awards, Residential—b	$ Millions	July	1329	1483	1690
All Other—b	$ Millions	July	2268	1989	1967
EMPLOYMENT					
Total Civilian	Millions	Aug.	68.3	68.7	67.2
Non-farm*	Millions	Aug.	53.3	53.4	52.0
Government*	Millions	Aug.	8.5	8.4	8.1
Trade*	Millions	Aug.	11.7	11.7	11.5
Factory*	Millions	Aug.	12.2	12.3	12.1
Hours Worked	Hours	Aug.	39.7	39.8	40.5
Hourly Earnings	Dollars	Aug.	2.27	2.29	2.19
Weekly Earnings	Dollars	Aug.	90.12	91.14	88.70
PERSONAL INCOME*	$ Billions	July	407	406	387
Wages & Salaries	$ Billions	July	275	274	262
Proprietors' Incomes	$ Billions	July	61	61	60
Interest & Dividends	$ Billions	July	41	41	37
Transfer Payments	$ Billions	July	29	29	27
Farm Income	$ Billions	July	16	17	16
CONSUMER PRICES	1947-'9-100	July	126.6	126.5	124.9
Food	1947-'9-100	July	120.6	120.3	119.4
Clothing	1947-'9-100	July	109.1	108.9	107.5
Housing	1947-'9-100	July	131.3	131.3	129.0
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Aug.	110.4	110.3	112.6
Bank Debits*—g	$ Billions	July	92.8	99.1	98.7
Business Loans Outstanding—c	$ Billions	July	32.0	32.6	29.5
Instalment Credit Extended*	$ Billions	July	4.0	4.2	4.2
Instalment Credit Repaid*	$ Billions	July	4.0	3.9	3.6
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	July	3.1	11.1	3.2
Budget Expenditures	$ Billions	July	6.2	6.9	6.5
Defense Expenditures	$ Billions	July	3.8	4.0	4.1
Surplus (Def) cum from 7/1	$ Billions	July	(3.0)	1.1	(3.3)

PRESENT POSITION AND OUTLOOK

The automobile sales rate has slipped from about 6.8 million to less than 6 million, seasonally adjusted. Some part of this decline may result from an as yet unmeasurable change in the automobile seasonal, resulting from the increasing admixture of compact cars in the total. While this may explain a portion of the decline, it remains true that it is compounding the problems faced by the dealer, and is increasingly suggesting a year-end inventory of 900,000 cars. This would be a new and rather unpleasant record.

The home-building rate has fallen to about 25% below a year ago, despite the gradual easing in the mortgage money market. No recovery in this area is suggested in the near future, judging from the rate of residential contract awards and commitment activity in the government-guaranteed sector of the market.

Outside these major consumer items, **retail trade** has been relatively spotty, with the home furnishings markets suffering while softgoods markets continue strong. Surveys of consumer sentiment have recently pointed uniformly to the conclusion that the consumer is exercising a high degree of caution.

In the business sector too, the rate of demand has evidently fallen. Interest in inventory continues slack, and recent figures suggest mild liquidation in the third quarter. Perhaps more significantly, indicators bearing on the rate of outlays for plant and equipment point to no further rise in this important market in the late months of this year.

It is also important to note that these declining tendencies are occurring in a government environment which has already shifted substantially toward counter-recessionary activity. Short-term interest rates have already come down notably, without inspiring any considerable increase in the demand for funds. And contract rates for both defense and nondefense goods have already risen. An important test of the strength of the American economy as a whole is thus now in process.

From the point of view of in-

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1960 Quarter II	1959 Quarter I	Quarter IV	Quarter II
GROSS NATIONAL PRODUCT	505.0	501.3	486.4	487.9
Personal Consumption	329.0	323.3	319.6	313.6
Private Domestic Invest.	75.5	79.3	70.8	78.9
Net Exports	2.0	1.2	— 0.4	— 2.2
Government Purchases	98.6	97.5	96.4	97.7
Federal	51.7	51.8	52.5	53.7
State & Local	46.9	45.7	43.9	44.0
PERSONAL INCOME	404.2	396.2	389.0	384.5
Tax & Nontax Payments	49.9	49.2	46.5	46.2
Disponsable Income	354.3	347.0	342.4	338.3
Consumption Expenditures	328.5	323.3	319.6	313.6
Personal Saving—d	25.8	23.7	22.8	24.8
CORPORATE PRE-TAX PROFITS		48.8	44.8	51.7
Corporate Taxes		23.8	22.1	25.5
Corporate Net Profit		25.0	22.7	26.2
Dividend Payments	13.9	13.9	13.8	13.2
Retained Earnings		11.1	8.9	12.9
PLANT & EQUIPMENT OUTLAYS	37.0	35.2	33.6	32.5

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Sept. 3	305.1	302.9	283.9
MWS Index—Per capita*	1935-'9-100	Sept. 3	220.4	218.8	211.9
Steel Production % cap.	% of Capality	Sept. 10	50.6	52.0	11.5
Auto and Truck Production	Thousands	Sept. 10	74	67	37
Paperboard Production	Thousand Tons	Sept. 3	327	313	336
Paperboard New Orders	Thousand Tons	Sept. 3	313	318	375
Electric Power Output*	1947-'49-100	Sept. 3	274.3	268.9	264.2
Freight Carloadings	Thousand Cars	Sept. 3	577	595	544
Engineerings Constr. Awards	$ Millions	Sept. 8	427	604	339
Department Store Sales	1947-'9-100	Sept. 3	146	144	148
Demand Deposits—c	$ Billions	Aug. 31	58.9	58.6	60.2
Business Failures—s	Number	Aug. 31	288	315	308

PRESENT POSITION AND OUTLOOK

vestors, this suggests a need for continuous appraisal of the business scene in the remaining months of this year, to locate new investment opportunities in a rapidly changing business environment.

* * *

THE EMPLOYMENT TREND — In August, nonagricultural employment declined by about 100.000, or roughly 1% on a seasonally adjusted basis. The contraction was confined to manufacturing establishments; other businesses showed a small rise in employment.

Within manufacturing, the labor force statistics point to a slight deterioration. Average hours of work declined a bit before seasonal adjustment, and rather sharply after seasonal adjustment. The resulting reduction in overtime reduced average hourly earnings of factory workers, and the combined effect of lower hourly earnings and a shorter work week yielded a significant decline in average weekly earnings. In view of the behavior of factory payrolls, it seems unlikely that the Commerce Department's figures for personal income rose in August, and no appreciable change appears to have occured in September.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun Bradstreet. (t)—Seasonally adjusted, annual rate. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960 High	1960 Low	1960 Sept. 2	1960 Sept. 9
Composite Average	482.5	429.5	446.6	439.2
4 Agricultural Implements	424.3	346.4	394.0	394.0
3 Air Cond. ('53 Cl.—100)	130.1	110.9	117.3	113.5
9 Aircraft ('27 Cl.—100)	1116.1	861.9	1071.9	1027.7
7 Airlines ('27 Cl.—100)	1044.6	769.7	846.7	835.7
4 Aluminum ('53 Cl.—100)	521.3	385.8	396.2	385.8
5 Amusements	286.7	209.3	282.1	286.7
5 Automobile Accessories	531.1	438.9	444.4	438.9
5 Automobiles	157.0	101.6	112.3	109.3
3 Baking ('26 Cl.—100)	39.1	34.9	37.9	37.9
4 Business Machines	1422.6	1172.3	1343.5	1304.0
6 Chemicals	809.6	689.4	745.5	721.4
4 Coal Mining	36.0	28.6	29.3	28.6
4 Communications	234.4	209.1	234.4	227.5
9 Construction	169.2	152.0	153.7	152.0L
5 Container	1064.7	887.2	918.5	897.7
5 Copper Mining	347.6	298.4	327.9	321.3
2 Dairy Products	188.5	146.8	186.9	188.5H
5 Department Stores	156.7	135.2	156.7	149.6
5 Drugs-Eth. ('53 Cl.—100)	474.7	386.8	421.9	399.9
5 Elect. Eqp. ('53 Cl.—100)	384.7	329.2	351.4	344.0
3 Finance Companies	755.9	648.8	749.2	755.9H
5 Food Brands	504.1	419.3	499.6	499.6
3 Food Stores	270.8	245.0	250.2	250.2

(Nov. 14, 1936 Cl.—100)	High	Low	Sept. 2	Sept. 9
High Priced Stocks	299.9	271.9	282.8	279.0
Low Priced Stocks	653.8	556.9	576.2	567.1
5 Gold Mining	1064.2	810.8	952.7	1013.5
4 Investment Trusts	170.6	145.0	150.1	148.4
3 Liquor ('27 Cl.—100)	1534.5	1128.3	1203.5	1203.5
7 Machinery	512.8	423.9	439.6	429.1
3 Mail Order	446.1	382.4	386.9	382.4L
4 Meat Packing	286.8	223.9	240.3	234.9
4 Mtl. Fabr. ('53 Cl.—100)	208.6	150.5	154.5	150.5L
9 Metals, Miscellaneous	399.1	320.8	343.2	339.4
4 Paper	1237.1	918.3	969.3	956.6
16 Petroleum	736.9	609.0	654.2	639.1
16 Public Utilities	393.4	341.6	390.0	393.4H
6 Railroad Equipment	99.8	84.8	86.8	84.8L
18 Railroads	70.1	55.3	55.9	55.3L
3 Soft Drinks	850.1	690.3	850.1	842.9
11 Steel & Iron	464.9	358.0	367.3	358.0L
4 Sugar	100.9	63.0	67.6	64.5
2 Sulphur	655.9	563.1	600.2	587.9
11 TV & Electron. ('27—100)	119.4	96.6	109.6	105.2
5 Textiles	223.0	185.5	196.5	194.3
3 Tires & Rubber	255.9	188.7	196.5	188.7
5 Tobacco	214.4	182.5	214.4	214.4
3 Variety Stores	382.1	352.9	371.2	363.9
14 Unclassif'd ('49 Cl.—100)	295.1	250.3	268.8	258.2

H—New High for 1960. L—New Low for 1960.

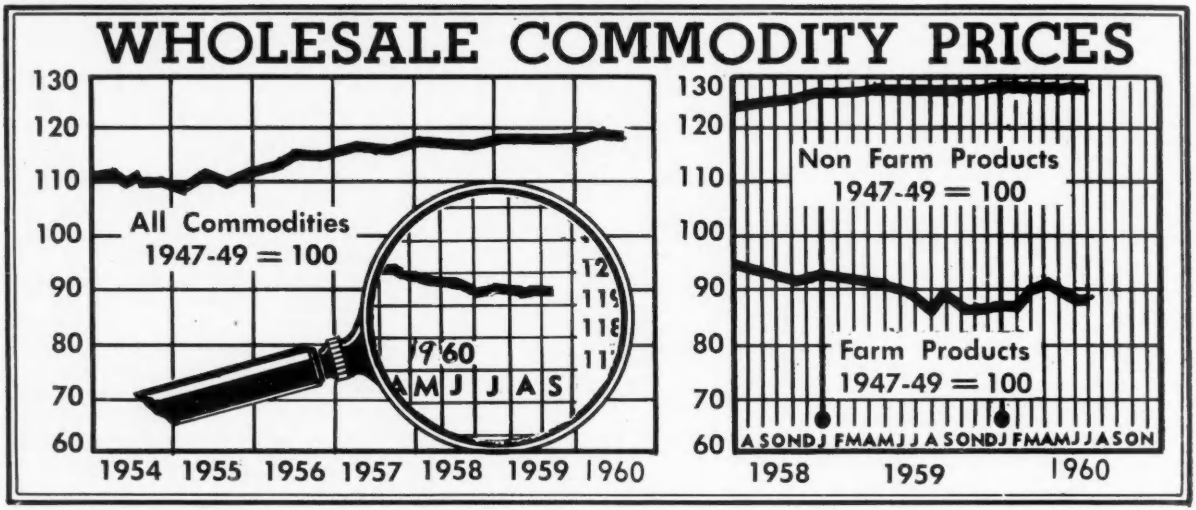
Trend of Commodities

SPOT MARKETS—Spot prices of sensitive raw materials were mostly lower in the two weeks ending September 9 and the BLS index of 22 such commodities fell 0.6% to close at 84.8, with both the food and industrial materials' components declining. In the latter category, lower quotations were registered for burlap, copper scrap, print cloth, rubber and steel scrap, while only tallow and wool tops were higher.

Among the broad range of commodities meanwhile, not much change was discernible. The BLS comprehensive wholesale price index held unchanged in the two weeks ending September 6, with advances and declines counterbalancing each other. Price concessions on some finished goods have been reported but these have not affected the price indexes as yet. More price cuts are in prospect as business continues to ease.

FUTURES MARKETS—Futures prices were mixed in the fortnight ending September 9. The Dow-Jones Commodity Futures Index eased off slightly but did not violate the low set in mid-August. Corn, copper, oats, lard, wool, cocoa and hides all were lower in the period under review while soybeans, cotton, world sugar, coffee and rubber advanced.

Wheat futures were little changed during the period, the December option closing at 193, unchanged from two weeks earlier. The export outlook for wheat remains bright, with European crops being hurt by excessive rains. The current wheat support program is scheduled to continue through the 1961 season so that political developments should have little effect on currently traded options. With wheat selling below loan levels, resistance to decline should continue to manifest itself.



BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Sept. 6	119.4	119.4	119.7	60.2
Farm Products	Sept. 6	87.4	[illegible]	88.9	51.0
Non-Farm Products	Sept. 6	128.3	128.3	128.4	67.0
22 Sensitive Commodities	Sept. 9	84.8	85.3	87.6	53.0
9 Foods	Sept. 9	76.4	76.9	78.6	46.5
13 Raw Ind'l. Materials	Sept. 9	91.0	91.6	94.3	58.3
5 Metals	Sept. 9	93.8	95.1	98.4	54.6
4 Textiles	Sept. 9	78.6	78.9	79.6	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS

1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

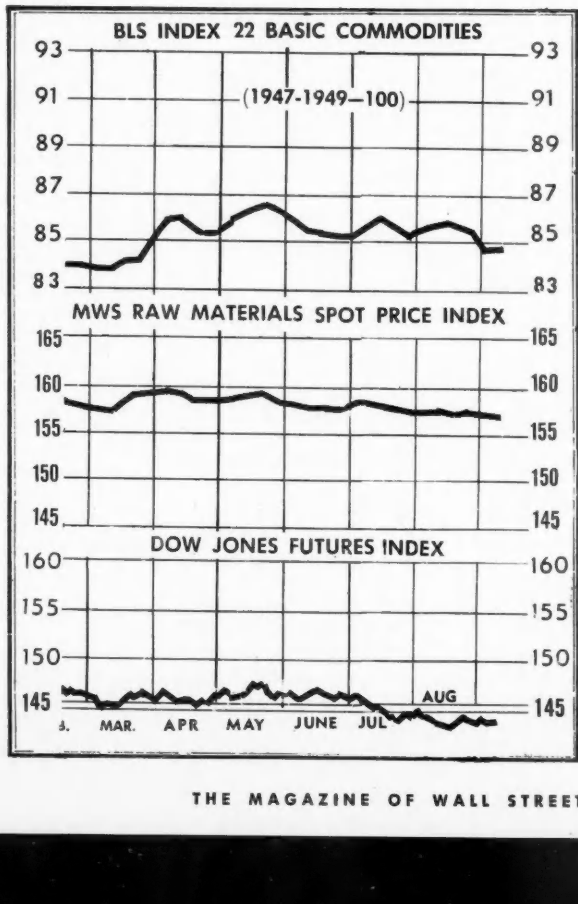
	1960	1959	1953	1951	1941
High of Year	160.0	161.4	162.2	215.4	85.7
Low of Year	154.5	152.1	147.9	176.4	74.3
Close of Year		158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX

12 COMMODITIES

AVERAGE 1924-1926—100

	1960	1959	1953	1951	1941
High of Year	148.7	152.7	166.8	215.4	84.6
Low of Year	142.9	144.2	153.8	174.8	55.5
Close of Year		147.8	166.5	189.4	84.1



The Boom In Europe And The Heated Debate On The Strength Of The Dollar

(Continued from page 23)

abroad, it is of some comfort that the drain on the U.S. gold stock has not been much larger than it has. Foreign central bankers have as yet shown no signs of panic. **Instead, they have indicated confidence in the dollar by refraining from large or sudden purchases of gold here.** As an al-alternative, **they have turned to European markets to supply gold needs, thus actually forcing the price of bullion there to an abnormal high. For example, in London this month the gold quotation reached a peak of $35.24, 15¢ above the U. S. Treasury selling price.**

However, as the London quotation rises, a point is reached where it becomes more profitable for foreign central banks to buy gold here, even considering shipping and other expenses. Then the gold outflow becomes accelerated or our authorities—or those acting for us—are forced to offer gold on the London market in order to keep a lid on the open market gold price there.

Why should foreigners trust the dollar? Largely because the dollar is, along with sterling, the most important currency in the trade and finance of the Free World. Outside of the British Commonwealth, most Free World countries consider the dollar as the basic currency for their foreign exchange reserves. *And while the United States does have a deficit in its balance of payments, it continues to maintain a favorable balance of trade—the most important component in a nation's over-all payments position.*

It is now anticipated in some quarters that U.S. exports this year will exceed imports by roughly $4 billion. (Other estimates are somewhat more conservative.) Nevertheless, this proves that the United States can make a strong showing in world markets in the face of keen competition from industrially resurgent Western Europe and Japan.

But it is still too early to state whether or not this is a temporary trend and only connected with certain exports at this particular time. And with the rather inflammable African situation and the necessity of inaugurating larger-scale aid programs in Latin America, there is no real chance of cutting our foreign aid expenditures. Thus the basic over-all payments difficulties remain.

The United States still holds almost half the world's official gold reserves, excluding the unknown holdings of the communist bloc. And while foreign short-term claims against the dollar (including those of international institutions) are now in excess of $20 billion, vs. some $7 billion of "free gold" not required for currency backing, this is a satisfactory ratio for the conduct of an international banking business. **Nor should it be forgotten that the United States is a substantial creditor on long-term account. Our long-term assets actually exceed similar liabilities by some $40 billion! By any system of accounting, this is impressive banking.**

But while it may look good on paper, we should remember that Great Britain too was in a strong position in this respect in 1931, just before the sterling panic and subsequent devaluation. Such strength is not of too much value in the fact of massive withdrawals of short-term funds.

Defending Dollar's Integrity

Another significant reason for foreign confidence in the dollar is the fact that the United States has been managing its money more wisely in the past year or so. Since the unhappy experience with the $12 billion budget deficit two years ago, which caused grave concern abroad, the Administration has shown renewed determination to defend the dollar's integrity. The recent budget surplus was reassuring to foreign bankers as well as to economy-minded Americans.

There has been no mistaking the Federal Reserve's policies aimed at sound money. Interest rates were kept high until it was certain that a new inflationary spiral was not in the making. Now that interest rates have been lowered to give the American economy a needed lift, it is felt that central bankers abroad are understanding of the situation. They themselves would, for the most part, act similarly in such circumstances.

But What After Election?

Yet this is no time for complacency. International money movements are *not* determined by considerations of love and affection, and even if they were, we might not come out ahead. Foreign money managers are watching the dollar closely. They are admittedly uneasy about the political paralysis which besets us in an election year. Strong tides are running and there are dangerous cross-currents in the sea of international finance. To delay vital decisions may mean to miss the boat! Even greater apprehension is caused by loose political talk of free spending, renewed budgetary deficits, and cheap money. **If the next Administration buys an election victory with the promise of vast new spending programs, it will be hard put to maintain the present value of the dollar in terms of gold. The stage will then have been set for devaluation.**

Europe's Embarrassment

Central bankers in Western Europe know only too well the pitfalls of monetary management. With their economies working at full steam, they are doing all that they can to keep domestic business expansion in check lest it fan the fires of inflation. But with money from abroad attracted by the high interest rates which were intended to curb excessive spending, new problems are created. *The European monetary authorities are now busy devising means of keeping foreign funds out or neutralizing them lest they fuel the inflationary furnace.*

Both Germany and Switzerland are now prohibiting payment of interest on new bank deposits of foreigners and, in addition, Switzerland is actually charging a small commission on such deposits. In Holland, the central bank is working out an arrangement which will effectively reduce the profit incentive of commercial banks to accept foreign money beyond a certain point.

Britain faces a somewhat dif-

ferent problem. As an international banker, it realizes that funds flowing in from abroad are of a temporary nature, and thus there is concern for the future of sterling when the flow is eventually reversed. *There is growing talk in London financial circles of the desirability of lowering the bank rate, and a modest interest rate cut is likely this fall.* It would be best for Britain if the spread between U.S. and British interest rates were narrowed gradually, for a sudden turn-about could put sterling under heavy selling pressure. But there is no likelihood of any such event happening, since even the most optimistic forecasters envision no possibility of a pronounced boom in the U.S. economy. As a result, interest rates here are not going to rise sharply, if at all. The odds are for a maintenance of present levels or further reductions.

Fortunately, for the good of their own internal economies, as well as for the stability of international trade and finance, European countries have sound reason to slow the flight of short-term capital and hot money into their vaults. American money managers can count on a degree of sympathetic cooperation from their European counterparts in attempts to moderate such disruptive influences. But too much reliance on their negative actions, rather than positive ones on our part, would be foolhardy. Their job is to protect their currencies, not ours.

The Outlook for the Dollar

Although there might be some forces working to ease the current strain on the dollar, it is likely that pressure will continue in the near future. A lowering of interest rates in England would tend to strengthen the dollar somewhat. But much depends on imponderable political factors both at home and abroad.

However, the main determinant in the dollar's future—aside from the important factor of business conditions here and their psychological effects abroad—will be the attitude of the next Administration in Washington. A willingness to sacrifice the stability of our economy on the altar of government spending, albeit in the name of accelerated growth or of crying social needs, will only cheapen our money and cause people to lose confidence in the dollar.

In such circumstances American as well as foreign capital will leave our shores, and grievous harm will have been done not only to our currency but to our entire economy. On the other hand, a firm resolve to keep our money and growth sound will inspire confidence both at home and abroad, and the dollar will continue in its vital role as the financial bulwark of the Free World.

END

The Problems Of The Depressed Oil Equipments

(Continued from page 34)

equipment field, also giving the recent price of the common and commenting on recent developments.

Black, Sivalls & Bryson (14). With sales of over $40 million, this company is well regarded in the trade where such oilfield equipment as oil and gas separation units are needed as well as gas dehydrators, heaters and storage tanks. Currently over-expanded refining capacity, as well as the oil situation generally, have contributed to depressed business, bringing the common stock down from its 1957 high of 32. Interest charges of over $300,000 per year are high when related to net income in 1959 of $521,000, and two classes of preferred stock are also ahead of the common. Since the company does not consolidate its subsidiaries for tax purposes their losses are not deductible from parent company profits. As a result the overall tax provision rose to 68% in 1959 vs 44% a year earlier, causing net income to decline 44% to $0.59 per share, although pretax net held about even. The dividend was omitted in June.

Dover Corp. (19). The most important division produces oil well operating equipment used after the well has been drilled and accounts for perhaps one-third of total sales. Hydraulic lifts for

service stations are nearly as important, while production of elevators ranks third and constitutes a small thorn in the side of giant Otis Elevator. The $1.20 dividend, providing a yield of 6.3%, appears safe under the reasonable expectation that the company's diversification will enable earnings at least to equal last year's $2.60. The stock, down from its 1959 high of 27½, seems a reasonable value.

Dresser Industries (21). Increased expenditures by the natural gas industry should allow some lift in shipments in the latter half of the present calendar year. But despite the improved trend indicated by earnings for the fiscal quarter ended July 31 of 54¢ a share vs. 34¢ a year ago, nine months earnings to July 31 of $1.36 still lagged slightly behind last year's $1.42, and a gain for the full year over last year's $1.95 cannot be counted upon. The $1.20 dividend, reduced earlier this year, now provides a 5.7% yield and seems secure for the near term at least.

Halliburton (38). Acquisitions of Welex and Otis Engineering have given the company a complete coverage of oil well services. Outlook still depend largely, however, upon drilling activity, although service contracts on existing wells are important, and profit margins have fallen this year with lower volume. With six month earnings down to $1.34 vs. $1.85, final 1960 net may be no better than $2.75 vs. last year's $3.75. The dividend of $2.40, providing a yield of 6.3%, does appear safe with excess cash in the till and an indicated whopping cash flow of about $7.00 per share. It should be remembered, however, that much of the non-cash charges that contribute to these large cash earnings are write-offs on the fleet of specialized trucks used for cementing services and that the eventual replacement cost will be substantial.

J. Ray McDermott (23). President McDermott recently said that the company has an excellent chance of at least equaling the $1.32 earned in 1959 and might earn $1.50 this year. Sales will be higher than last year's $60.3 million. These predictions were made despite a sharp decline in first quarter net to $0.08 per share from $0.39 in 1959 and the expectation that the second fiscal quarter will not be more than slightly improved. This, the president states, eying his order books, has little bearing on the future. The major improvement expected for the fourth fiscal quarter ended March 31, 1961 will be based on an improved flow of orders for off-shore oil platforms that take some months to fill. Orders are now coming in from all over the world. Gulf of Mexico operations are also picking up, and Mr. McDermott feels that the company has seen the low point and that operations will rise to greater heights than before. In this light the stock appears unduly depressed and could qualify as one of the better speculations in the group. Of course, the current pickup in orders could turn out to be only a temporary flurry and more intense competition might later be encountered. The 60¢ dividend yields only a modest 2.6%. END

The Chemical Companies Under Increasing Competition

(Continued from page 27)

capital expenditures by U.S. chemical companies outside America would increase from $191 million in 1959 to $246.4 million in 1960 and further to $285.8 million in 1961.

A large part of this new investment is being made in various plastics. The Western European plastics market is almost as large as that in the United States. *Total plastic sales in Western Europe last year rose 24 per cent to more than 2 million tons. That compares with a 21 per cent rise in U.S. sales, which totaled 2.3 million tons.*

Specter of Competition—However, there is a reverse side to this rosy picture. As U.S. companies expand their facilities abroad, it is only logical to expect that the ability to find export outlets for U.S. products will decline. Then, too, European and other foreign chemical manufacturers are expanding their own capacity substantially. *European companies invested $270 million in petrochemicals last year and a further $800 million is earmarked for expansion in the 1960-1962 period.*

RESEARCH AND DEVELOPMENT OUTLAYS OF LEADING CHEMICAL COMPANIES

	1958		1959	
	Thousands of Dollars	% of Sales	Thousands of Dollars	% of Sales
Allied Chemical	16,000	2.5	17,000	2.4
American Cyanamid	23,357	4.4	26,112	4.5
Atlas Powder	3,300	5.0	3,600	5.1
Diamond Alkali	3,650	3.2	3,988	2.9
DuPont	90,000	4.9	90,000	4.3
Hercules Powder	10,816	4.6	11,602	4.1
Hooker Chemical	3,600	2.9	3,693	2.5
Monsanto Chemical	23,400	4.3	26,900	4.4
Spencer Chemical	2,961	6.6	2,922	5.1
Stauffer Chemical	2,875	1.8	4,664	2.0
Union Carbide	71,000	5.5	79,000	5.2

Developments like these portend a definite slowing-down in the rate of growth of U.S. chemical exports in the relatively near future. One industry source indicates that, after this year's expected gain of 15 per cent, exports will advance no more than 3 per cent in 1961.

Foreign Inroads on Domestic Markets

Concern is not only evident in the chemical industry over the possible slowing down of exports, but also over further inroads of foreign producers in markets at home. This worry is probably greatest in the synthetic fiber industry. Capacity of these fibers is growing rapidly in Europe, Japan, and in the Communist world. **Japan,** for example, possesses enough excess capacity to supply the entire annual consumption of rayon staple in the United States. In view of these considerations, representatives of the synthetic fiber industry have recently appealed to government authorities to refrain from reducing tariffs during the forthcoming negotiations in Geneva under the General Agreement on Tariffs and Trade.

Preparing for the Future

With its costs rising rapidly and the degree of competition becoming more severe, the pressure on chemical companies to increase their efficiencies through construction of new plant and equipment and the modernization of existing plants is increasing. Therefore capital expenditures by the chemical industry, which advanced to 1.2 billion dollars in 1959, up about 17%, from the previous year, are scheduled to increase further during 1960 to nearly 1.6 billion dollars.

In addition to measures to increase its efficiency and capacity, a major foundation of growth in the chemical industry is research and development. It is estimated that as much as 50% of the products now sold by the chemical industry were not produced commercially, and many were even unknown, as recently as 20 years ago. Spending on research and development constitutes an increasingly important share of chemical company spending as shown in the accompanying table.

In looking for new and different products, chemical research departments, for example, search for the best plastic for every individual use and the most effective fertilizer for the farmer. Increasingly, chemical companies are working with the consumers of various products such as plastics and fibres in order to tailor a product to specific needs. Additionally, the research effort of the chemical industry is devoted to the search for new applications for old products. **Research** also involves work with raw materials to develop new chemicals as well as more efficient means of producing older ones. The chemical industry is also working on economic uses for industrial wastes and other materials.

In a recent speech on "New Horizons in Chemistry," Mr. Chaplin Tyler of DuPont stressed the importance of a chemical firm's research effort. He indicated that: "Future enterprises must be highly adaptable to changing needs. Each must decide what function it proposes to perform and realize that specific products are a means to the functional objective rather than an end in themselves. Thus considered, the chemical industry's function is to design molecules for particular purposes such as energy transformation, building construction, textile fibres, pigmentation and nutrition. Viewed in such a light the most successful enterprises of the future will be those that think primarily in terms of markets and that consider end-products, intermediates, prime chemicals, raw materials and technology as means to market exploitation."

Outlook for Individual Companies

Very few of the major chemical companies can expect to raise their performance much above that of the general industry this year. This appears to be particularly true of the largest firms like **DuPont, Union Carbide** and **Dow Chemical,** each of which have been affected by lower profit margins recently. **Allied Chemical** is one of the few firms which appears likely to record higher earnings this year than in 1959. Among other things, this company is benefitting from higher ammonia and nitrogen prices.

Another company which appears to be in a position to increase its earnings is **Diamond Alkali,** which is experiencing a record year, its earnings improving as a result of increased chlorine prices and the completion of new, more efficient facilities. Aside from these companies, however, earnings of the chemical industry this year are likely to mark time.

END

Where Does Paper Industry Stand Today?

(Continued from page 37)

trend toward easier money may, however, bring an upturn in home construction next year, which would improve returns on plywood and lumber and boost paper company earnings accordingly.

Notwithstanding the current profit margin squeeze, the paper industry is entitled to a much better investment rating than it

possessed twenty or thirty years ago. The industry then passed through severe price wars whenever demand declined, and at such times profits would often be succeeded by losses.

Price Wars Avoided

The industry has now passed into stronger hands. Many of the smaller converters of paper, which were often the quickest to cut prices, have been absorbed by the integrated companies. Competition remains extremely keen, as evidenced by the industry's inability to offset fully the labor cost increases of recent years. But destructive price cutting such as impaired the industry's credit rating in the 1930's appears to have passed out of the picture.

The small decline in the industry's net profit in the first half of the current year, while disappointing in view of hopes for a good gain in earnings, actually demonstrates an improved stability. For as against the decline of 1.5% in the paper industry, American industry as a whole suffered a decline of over 7%. The automobile industry was off 4.5% in net profit. while steel was off nearly 30%.

Manufacturers of paper containers, including bags and paperboard boxes, however, are finding conditions less satisfactory owing to overexpansion in this segment of the industry. They also lack the integration, stability and diversification of the major paper companies.

New Peak In Output

For 1960 as a whole, it appears that paper and paperboard production will total close to 36 million tons for the entire industry. This would be a gain of about 5% over last year's total of 34 million tons.

Last year, production already set an alltime record, 10% above the 1958 total and about 8% above the previous peak, established in 1956. Hence, it appears that output in 1960 is likely to set a new record for the second consecutive year. Even if the fall upturn in business proves disappointing and the year's total falls well below the 36 million tons now anticipated a new peak is almost assured in any event.

Step-up In Government's Anti-Merger Campaign

A disturbing factor has been the increased activity of federal authorities in attempting to block proposed paper company mergers and in even seeking court approval of divestiture of assets of companies acquired through mergers in recent years. The industry's improved stability has unquestionably been aided to a degree by the acquisition of smaller paper converters by large, well-integrated companies. If this trend were to be reversed, or even checked, it would become more difficult for the industry to increase its earnings and finance its future growth. Retained earnings, which have supplied the bulk of the large sums invested in new plants, would be reduced if price cutting of the radical pre-war type by independent paper converters were to reappear. The industry is certain to fight any government anti-merger moves with great determination; and in any event the improved statesmanship of the industry executives rules out the likelihood of vicious price cutting.

But it is probable that the industry will push mergers less actively than in the past. The government has already induced **Union Bag-Camp Paper Corporation** to call off a proposed merger with Crossett Company. Union Bag is also facing an earlier complaint by the Federal Trade Commission that its acquisition of Camp Paper in 1956, as well as four later acquisitions, was contrary to the anti-trust laws by contributing to a "reduction in competition."

The paper industry has had still further evidence of vigorous anti-merger activities by the government. The Department of Justice is seeking to force **West Virginia Pulp & Paper** to divest itself of its 52% interest in United States Envelope Company, acquired last June. Again, the Federal Trade Commission has charged that **Inland Container Corporation,** third largest producer of paperboard boxes, had violated the anti-monopoly laws when it acquired the Louisville plant of General Box Company. A decision by the FTC against **Crown Zellerbach,** second largest producer, which would force it to divest itself of St. Helens Pulp & Paper Co., acquired in 1958, is still awaiting a ruling upon appeal to the United States Court of Appeals.

Continental Can Company is facing an anti-trust suit in connection with its acquisition of a paperboard box producer, Robert Gair Company, and also of Hazel-Atlas Glass Company—container companies in fields other than Continental's traditional metal packaging lines.

Crusade Goes Too Far

The anti-merger crusade of the Department of Justice and the Federal Trade Commission has picked up momentum as a result of the victory won by the government in successfully blocking the proposed Bethlehem Steel—Youngstown Sheet & Tube Co. merger, two years ago.

The question may well be asked whether the government is not carrying its anti-merger campaign too far. Some mergers actually contribute to increased competition, by enabling one producer to penetrate marketing areas where it has not been active hitherto.

In 1955, for example, **Crown Zellerbach** acquired the **Gaylord Container** Company and through that company's plants extended its marketing operations into the eastern states. Crown Zellerbach had previously concentrated its sales on the West Coast, but carried out the new move in retaliation against efforts by **St. Regis** and other eastern producers to expand into Crown's west coast territory. This tendency on the part of major producers to invade each other's markets has unquestionably intensified competition. Crown Zellerbach even won from St. Regis some of the large, long-time contracts which the latter company had hitherto received exclusively from Time, Inc.

The tougher competition within the paper industry is so far offsetting most of the benefits which the industry is gaining through merger and larger sales. Government economists are forecasting further paper industry growth over the next decade. Specifically, they estimate an increase of 40% in output and consumption of paper products by

1970, a rate of growth slightly greater than that projected for the economy as a whole. Paper products of widely diversified nature are making progress at the expense of steel, glass, wood and textiles. But on the other hand, paper is itself losing some ground in certain markets to competitive materials.

Paper Makers Add Plastics

For example, the films, the foils and the plastics are invading traditional paper markets. The latest move in this direction has been in the field of disposable cups. Some paper companies, recognizing this trend are themselves expanding into plastics. **Scott Paper Company** is spending over $3 million for a new plant to make plastic drinking cups for hot beverages, as well as the plastic material—called Scottfoam—to be used primarily as a laminate on fabrics and as an air filter. **Automatic Canteen** will use styrene foam paper cups which, it claims, will hold hot liquids without burning the hands of the user. The switch to plastics will mean that several hundred million plastic cups may eventually replace an equal number of paper cups in automatic vending machines.

Paperboard box containers should continue their long term growth, at the expense of wooden boxes and older types of containers. Multi-wall paper bags, however, have sustained a reverse in cement and some other fields, as a result of the recent trend toward bulk delivery in carload lots, to reduce distribution costs. It also remains to be seen whether heavy duty polyethylene can make a big dent in the multiwall bag market.

The trend toward self-service in retail merchandising has given an impetus to all kinds of packaging, with paperboard and kraft paper well in the lead in this field. The Department of Commerce estimates that total paperboard demand will rise 47.9% between 1960 and 1965, against a projected rise of 35.7% for paper products as a whole.

Growth In Domestic Newsprint

Newsprint has already moved up from domestic production of 1,806,000 tons in 1957 to an estimated total of 2.5 million tons this year and output is expected to continue to grow, possibly to 2.7 million tons by 1965. This rapid growth reflects the trend among publishers in the South and West to buy from nearby newsprint plants, some of which they have built themselves, rather than from distant Canadian plants. Newsprint consumption in the United States reached an all-time high last year of 7.1 million tons. This was 8% above the previous peak reached in 1957.

Profit Margin Squeeze

Prices for various paper products have shown a mixed trend, and on balance the movement has not been satisfactory to paper producers. Kraft and white paper prices were boosted this year, along with multi-wall bags. But prices of paperboard and converted board have remained highly competitive. Newsprint prices in the Rocky Mountain area were even reduced this summer, because of increased competition. Thus, despite some price rises, profit margins of many companies have been squeezed painfully as costs have continued to rise.

Capital Needs

The paper industry, because of its current and projected expansion, is a large user of capital funds. Mr. David L. Luke, President of West Virginia Pulp & Paper Co., estimated that during the 1960's the industry's expenditures on plant and equipment will average not far from $1 billion a year. This compares with an average of $660 million a year in the last five years. While the industry has more than adequate capacity for the next two years, it will need additional plant after 1962 to meet the demand.

Moreover, some of the existing capacity is obsolete and high cost, and will have to be replaced.

Opportunities In Research

Substantial progress is expected during the 1960's in research in chemistry, engineering and forestry. The industry now makes useful products out of only half of each piece of wood which it grows. The rest is usually burned. When the paper industry has learned how to use its byproducts—as the coal, petroleum, meatpacking and many other industries have done—it should be able to increase its annual sales substantially, entirely aside from any growth resulting purely from the increased demand for paper products

In the last ten years the paper industry has increased its research activities substantially. As against a total of $100 million spent in the last decade, the total in the present ten-year period may rise to as much as $1 billion. *This is a price which the industry must pay to meet the aggressive competition of plastics and other materials, and to develop entirely new markets for wood products.*

Particularly Attractive Companies

West Virginia Paper, which has been a leader in research, has developed jointly with **Cluett, Peabody** the stretchable paper, Clupak. West Virginia's profit showing has been better than that of the industry as a whole this year, and its growth has exceeded that of the industry, partly because of its willingness to spend generously on research. Net profit for the nine months ended July 31 was $1.66 a share vs. $1.63 in the same period last year, on a rise of 7% in dollar sales. West Virginia has had partial success in fighting the profit squeeze by cutting costs and increasing plant efficiency.

Another leading producer, **Kimberly Clark,** made an exceptionally favorable showing by boosting its net earnings 14.8% in the quarter ended July 31, on a sales rise of 5% as compared with a year ago. Part of this improvement, however, resulted from a major plant changeover and its attendant reduction of profits a year ago. The company expects to maintain the improved sales and earnings pace for the remainder of the current fiscal year.

International Paper, world's largest producer, also expects to increase its earnings this year slightly over the $6.21 a share reported for 1959.

In Sum

But for the industry as a whole, much will depend in the next few months—as well as in

the next decade—on its ability to avoid the impact of the profit squeeze. If it can effect adequate price rises in the remaining months of the year—and make them stick—it will come up with a performance for 1960 fully as good as 1959—a record in sales and profits inferior only to those of the 1956 peak. END

Dangers In Labor's Monopoly Power

(Continued from page 10)

labor practices, but no equal provisions existed for management. Repetitively, union bosses could do no wrong, management could do nothing right. That was the law, and it has been modified only to the extent of eliminating the closed shop—it required union membership for those obtaining a job—but substituting the union shop, compulsory dues-paying membership to retain a job. The difference is infinitesimal; either dragoons the worker into the union, regardless of personal or religious convictions—and there are religious sects opposed to union membership by their adherents.

Picket Violence a Form of "Free Speech"

► About 1940 the Courts moved into the labor-management picture, declaring that picketing was merely a form of "free speech." This opened the door for racket and blackmail picketing. The picket and his sign became weapons for compulsory unionism and greater union power. But the picket and his sign were not long in moving from "free speech" to bloody violence to enforce the demands of labor's higher-ups.

► Under leadership of the late Sen. Robert A. Taft (R., Ohio), the Taft-Hartley Act was passed in 1947, despite a veto by then President Harry S. Truman. It was a move to introduce sanity and responsibility on the union's side of the bargaining table. For the first time there was recognition that unions could commit unfair acts and the states were given the right to protect voluntary unionism through right-to-work laws, while secondary boycotts were outlawed.

Union Bosses Find Ways of Evading Taft-Hartley Act

► Unions damned the Taft-Hartley Act as a "slave labor" law, but union membership suffered not one whit; in fact, it grew from 14.7 million to nearly 18 million. It was not long, however, before union lawyers found loopholes in the Act to make it ineffective in many instances. **The new law failed to halt secondary boycotts, featherbedding, blackmail picketing and union violence. Worst of all, it gave the rank-and-file member no voice in the union supposed to represent his best economic interests. In short, the union bosses were "in the saddle, and the Hell with membership and the public interest."**

► In 1955 the American Federation of Labor and the Congress of Industrial Organizations (AFL and CIO) merged into a single unit. The new organization was able to exercise its muscle with few restrictions. Mass picketing, although illegal, was (and is) used whenever union masters feel such show of strength is necessary to their selfish ends. The ability to shut down an industry all across the nation became a fact, not just a union business agents' fantasy.

The power is universally available, whether the industry be steel, transportation, communications or defense. And in the past three years—notably in the cases of the steel strike of 1959, the Cape Canaveral strike and, most recently, the Pennsylvania strike —the power has been used ruthlessly.

Labor's Political Power

Traveling behind a banner labeled "Education," labor bosses have used dues monies of members to help elect candidates favorable to unionism's political and social goals. Public office-holders —sheriffs, judges, mayors, aldermen, governors and members of the Congress—have felt the impact of union cash.

Nine of the 15 members of the Senate Labor Committee—all backed by labor cash—have voted with labor in national issues, right or wrong! On the House side of Capitol Hill, 17 of the 30 members of the House Education and Labor Committee have ignored the rights of the majority in favor of the labor minority—fearing, of course, organized labor's retaliation at the polls.

With this almost unlimited legislative power, and influence at every level of elective office, union officials have travelel far beyond the original concepts of union membership — primarily reasonable wages and better working conditions—to the point of demanding the right to dictate management policies, the furtherance of featherbedding practices, and the extension of Federal controls over every activity—housing, education, generation of electric power and other endeavors better left to the states, municipalities and plain John Citizen.

Urgent Need for Restraints Today

This unreasonable power of labor—fostered by too many politicians—has brought us to the brink of economic chaos; if not chaos, into an era of inflation that has already wreaked severe damage. Labor leaders can bring a vast industry to a complete halt, not caring whether it be basic to the national economy or essential to the national defense.

● Statutes to enforce compulsory and binding arbitration in labor-management disputes affecting the national economy and the public convenience and necessity are definitely required. The need has been pointed up by the Pennsylvania strike and the strike at Cape Canaveral.

● In all labor-management disputes stubbornness exists on both sides, but public interest should always be paramount to either side. The writer holds no especial brief for labor or management. He just wants the interests of the citizens considered, and the kind of laws that will make it impossible for the abuses that now exist and interfere with the lives of the people sitting on the sidelines who, for no reason whatever except inadequate protection by the law, are often the real victims of any labor clash, are subject to great hardships, financial loss, and unreasonable infringement of their constitutional rights.

Note—This article has dealt with some phases of labor's monopoly power. A succeeding piece

will reveal the financial might of organized labor, the billions of dollars available to support its political and other demands—and in contrast, what welfare provisions are made for the dues paying union worker. END

Where Cash Flow Profits Greatly Enhance Earnings Picture

(Continued from page 13)

for the year 1959.

How Present Depreciation Rates Hinder Replacement

The Jones & Laughlin picture places in bold relief the healthy financial state of a large segment of American Industry. Yet, there is a negative side to this picture. Depreciation reserves have risen rapidly in recent years as the government has encouraged the fast write-off of productive facilities. *But depreciation reserves are still inadequate to meet the replacement needs of many corporations if the present rate of cost increases continues on into the future.*

Where U.S. Lags Behind Foreign Governments

In the encouragement of such replacement the United States is far behind the rest of the industrial world. **Abroad, many governments have liberalized depreciation rules sufficiently to place their own companies at a competitive advantage even more important than the more commonly recognized advantage of lower wage rates. Foreign companies are thus encouraged to purchase the most modern machinery and equipment, secure in the knowledge that they can recapture the investment within a brief period of only two or three years.**

By contrast, American industry must contend with a complicated set of rules and regulations designed to deny rapid write-offs to most companies.

As a result, despite the pleasant cash flow of many major companies, industry as a whole is running in the red when depreciation allowances are placed against actual replacement costs of machinery.

The independent Machinery & Allied Products Institute recently estimated, in fact, that replacement costs currently are actually outrunning depreciation allowances by $6 to $8 billion a year. Since World War II the accumulated deficit falls somewhere between $40 and $50 billion. Yet the Congress continues to treat depreciation as a political football, ignoring the fact that American industry must absorb this tremendous loss if it is to compete effectively with foreign corporations, not only abroad, but right here at home.

Other Companies With Large Cash Flow

Because of the 27 percent depletion allowance granted to oil companies and other members of extractive industries, large cash earnings are often thought of as the exclusive property of oil and mining companies. The foregoing examples of Allied Chemical, IBM, Texas Instruments and Jones & Loughlin, indicate that such is no longer the case. For despite the archaic aspects of our laws, astute and well managed companies have still been able to utilize depreciation regulations to pay for a substantial portion of their expansion.

Johns-Manville, for one, has virtually built one third of its plant account in the last three years by expending over $127 million on capital improvements. So rapid has the inflow of cash been from the combination of depreciation of these new assets and the depletion of the company's asbestos properties that all of last year's capital outlays were covered by these charges. Cash earnings amounted to $5.71 per share compared with only $3.73 of stated net income.

Other companies give evidence that in the future they too will be generating enormous cash income. **Brunswick Corporation,** the star of the bowling alley field, generated cash income of only $3.73 last year. not much over net income of $3.42 per share. *Capital outlays in 1959, however, were almost 400% higher than depreciation reserves, indicating that the company's fast expansion is continuing, and will generate even larger cash flow in the early future.*

Much the same can be said for **Pfizer,** a drug company long associated with growth in the public mind. The table illustrates that the largest share of Pfizer's fixed assets has been established in the last three years, a factor which largely explains the company's tremendous earnings and dividend successes. There has obviously been no relaxation in this process, since capital spending in 1959 topped depreciation charges by 4.2 times. Such a rate cannot be sustained indefinitely without the necessity of resorting to outside financing. *As demonstrated by Allied Chemical and Johns-Manville, however, a consistent rate can eventually lead to sufficient cash flow to pay for all current capital outlays.*

Concrete Results

The single fact that presents itself most forcefully from the accompanying table is that each of these companies is spending a lot of money to improve its future position.

Significantly, almost all of the companies in the table have also demonstrated excellent growth in recent years. Perhaps the few that have failed to do so, such as **Jones & Laughlin and U.S. Rubber,** are now on the threshold of rapid growth. Certainly the pattern set by most of the other companies indicates that this is likely to be true.

Hence, a close look at cash flow suggests several thoughts to investors. If it is large, there is an excellent chance that the company has spent the last few years of good business rebuilding its plant and replacing its machinery with the most modern equipment available. As a result, the cash income available to be used in the stockholder's interest has been raised substantially. The company has also almost certainly improved its cost base, thus assuring lower break-even points and a greater ability to withstand recessions.

It is no accident. for example, that **Minneapolis-Honeywell** appears on the list. This company, through wise production planning, has long been in the vanguard of the profit margin leaders. Similarly, it is significant that **Westinghouse Electric** has coupled a big capital spending program with aggressive merchandising to correct the sad earnings picture that existed just

a few short years ago.

Of perhaps greatest interest, however, are two other companies. Neither **Procter & Gamble** nor **General Foods** has usually been associated with glamorous growth. Yet each has far outperformed the stock market in the last year (in fact, the two of them are largely responsible for the upward pressure upon the Dow-Jones Industrial Average). Each is also high on the list of companies that expend enormous funds on capital improvements. Procter & Gamble, in fact, offers figures that are more reminiscent of a missile manufacturer. Net earnings last year were reported at $3.95 per share. Actual cash earnings were $5.03, or well over $20 million more. The difference more than covers Procter & Gamble's increase in dividends this year. At its present price Procter & Gamble appears to have discounted most of the favorable developments.

Investors Must Watch Cash Flow

Corporate statements become progressively more confusing because of the impact of taxes among other factors. Managements have been forced to use all their imagination to find ways within the law to reduce the tax bill. Hence, investors must likewise develop greater sophistication in assessing tax consequences in corporate actions.

The most important single factor along these lines is depreciation. Cash flow gives the investor a way of measuring not only the progress made in expanding operations but also the astuteness of management in taking maximum advantage of the law. It is a tool that must be in every investor's arsenal in these complicated days. END

A New Look At The Important Non-Ferrous Metals

(Continued from page 31)

But a Reduction May Be in the Offing

Nevertheless, it seems more than possible that the present 33 cent price may be reduced to 30 cents a pound. Weakness on the London Metal Exchange is significant. The price there has declined to about 29½ cents a pound. This would be equivalent to about 31½ cents delivered in New York after tariff and handling charges, and would indicate that foreign producers could find it more profitable to sell here than in London. Quite in line with this was a recent 1 cent price reduction by Canadian producers to 30 cents. It seems likely that the smelters will initiate a price reduction in this country. The producers, who handle the vast bulk of domestic output, will probably delay taking any action immediately. But the producers cannot maintain indefinitely a higher price than the smelters. *They are under constant pressure from their own captive fabricators to fall in line with the prices established by the independents. These latter have their own troubles from foreign fabricators, who not only can buy their metal cheaper on the London market, but need to pay their labor only about a quarter of the average wage that prevails in this country. It is small wonder that brass imports last year accounted for 10 per cent of the total domestic market, or that imports of wire and cable so far this year are running 400 per cent over 1959, with prices 10 to 20 percent below the U.S. level.*

Domestic Copper Picture Has Encouraging Aspects

Market action of the copper stocks from the first of the year up to the middle of July was disappointing. Since then there has been a revival of interest. Market declines were caused not by falling profits, but rather by the fear of falling profits. The market was following its traditional course of discounting in advance what might happen, and belief had gained wide acceptance that copper production was outstripping demand, that a surplus was appearing, and weakening of the price structure with consequent lower profits for the producers was inevitable.

But a more careful appraisal lends more confidence. The major producers can do very well indeed with 30 cent copper. Costs per pound are not published, but it is well nigh certain they will average less than 20 cents. An important factor reducing costs even further is the value of the by-product metals recovered with copper — molybdenum and gold for **Kennecott**, uranium and other metals for **Anaconda**, and gold and silver for **Phelps Dodge**. While labor costs have increased, output per man-shift has increased in marked degree in many instances.

In 1957, when copper averaged 29½ cents a pound throughout the year, Anaconda earned $5.89 a share, Kennecott $7.32 and Phelps Dodge $4.48. There is no reason why 30 cent copper in 1961 (if we want to assume such a cut in price from the present level) should not provide equally good or even better earnings. This would make the stocks of the Big Three appraised at no more than 10 times such projected earnings at today's prices.

Aluminum Growth Rate Reduced, But Still Impressive

Aluminum—There is no denying that aluminum has the most promising long term growth rate of any of the major metals. Since 1947 through 1959 primary aluminum production has shown an annual compounded rate of growth of nearly 11 per cent. In 1959 its recovery from the recession year of 1958 was no less than 25 per cent. But 1960 will show a drastic decline from that sensational rate. This should not prove alarming. Demand for the metal in the principal markets it serves—building, transportation, durable goods—is cyclical, and recedes in periods of business decline.

It now appears plain that the highly optimistic forecasts for the aluminum industry that were made at the beginning of the year have had to be revised downward. The Business and Defense Services Administration at Washington originally forecast an increase in mill and pig shipments in 1960 of 10 to 15 per cent over 1959. This has been twice reduced and Washington and the trade generally are now willing to settle for 2,100,000 tons for 1960. This would still represent an increase of about 7½ per cent over 1959. It seems quite evident that the historical 10 per cent rate is not likely to continue. But if the 7½ per cent rate continues compounded, it would mean that by 1970 production would have to be about double that of 1960.

This should be satisfactory for aluminum producers, outdistancing by far any projected increase for the other metals, particularly

on a volume basis, where the difference in specific gravity makes the increase even more impressive. Nevertheless, aluminum executives have their present problems. In their enthusiasm over the potentials of the market for their metal, and egged on by Government prodding to step up primary production capacity, the producers overbuilt their facilities. *As of last March, total domestic primary capacity exceeded 2,389,000 tons. This would indicate, on a production of 2,100,000 tons in 1960, that no more than 88 per cent of installed capacity would be needed. But that doesn't end the story. If the new capacity now under construction is added, by 1961-2 the capacity would reach 2,664,000 tons.*

Burden of Temporary Overcapacity

Thus, if the industry continued to maintain a 7½ per cent increase, no more and no less, it wouldn't catch up with its production capacity until 1963. In 1962 it would be employing no more than 91 per cent of the then existing capacity. Unless something suddenly develops to increase demand beyond normal expectation, plenty of aluminum will be available for industry for the next three or four years ahead. This can be considered good news. There will be no scarcity or need for allocations, and consumers can go ahead with plans for employing the metal in new uses, secure in the belief that inability to obtain aluminum will not be one of their problems.

But in spite of the increase in production, net shipments of aluminum mill products in the first half of 1960 were down 7½ per cent from the corresponding 1959 period, or just the same amount that primary production increased. One should recall, however, that last year's inventories were tremendously increased in anticipation of a strike which didn't occur. This makes the comparison a little misleading. Sheet and plate shipments which make up nearly half of the total mill output were off about 9 per cent, while fuel and cable shipments declined a lesser amount. By the end of June producers' inventories had risen to the highest level for a year.

One of the principal producers, ***Kaiser Aluminum,*** *has closed down one of its pot lines to bring production into line with demand. Primary output is generally being closely controlled. An* ***Alcoa*** *official declared recently that the industry is in a profit squeeze because of excess capacity, while power costs and woge rates are continuing to rise.* As the aluminum industry necessarily must carry a heavy load of interest charges and amortization because of enormous initial capital costs, unused capacity cuts deeply into profits. The second quarter reports of the producers yield evidence of this and offer plain indications that the bloom is off the aluminum demand at present.

The Opportunities in Foreign Markets

While there is no reason to believe that aluminum demand in the United States will not continue to gain, the rate of increase is likely to be much less than in Europe and in the undeveloped countries of the world. Per capita consumption in this country is about 27 pounds. In the United Kingdom it is 9 pounds, in the European Common Market 6 pounds, and in the rest of Free Europe less than 4 pounds. Russia is believed to need all of its own production to satisfy its needs and will probably have no aluminum to export in the immediate future.

Quite evidently the opportunity to increase sales of the metal is relatively better abroad than in this country. It is easy to explain, therefore, the intensive efforts being made by domestic producers to establish themselves abroad, either by acquisition of existing distributors and producers, or by setting up their own production facilities. *The heads of Alcoa and Reynolds have gone on record that the aluminum industry should move fast to establish plants in E. C. M. countries. Such a move has been made the more urgent by the news that E. C. M. external tariff on aluminum mill products has been increased from 10 to 15 per cent.*

Aggressive Tussle for Business in Diversified Fields

At present it looks like a fight for markets to take up present capacity, which has increased 300 per cent since the end of World War II. The loss of put contracts to the Government has affected every producer except **Harvey,** and made it mandatory for the producers to seek new sales outlets to take their place. All the major markets for aluminum didn't just happen, but were developed only by successfully competing against materials that previously had enjoyed a near-monopoly in the same areas. Many other markets will likewise have to meet hard-hitting aluminum competition. And even in the markets already gained, plenty of room is left for further expansion.

Indicative of the attempt to gain a foothold in a market claimed almost exclusively for steel is the recent announcement by a major consumer of its intention to make full scale use of aluminum in cans for citrus concentrates, instead of conventional tin plate. Beginning with the 1960-61 pack all standard 6 oz. cans, totalling 50 million, will be made of aluminum. A substantial saving in freight costs is anticipated by the substitution. Other interesting developments have been recently announced by Alcoa in the container field.

Price Stability May Not Last

The aluminum industry has prided itself on its price stability, in contrast with prices for other non-ferrous metals. It begins to look a little doubtful whether this will continue. Export prices have consistently been about 2¾ cents lower than domestic, which are protected by 1¼ cent a pound tariff. This has caused a storm of protest from the independent fabricators, who point out that semi-fabricated and fabricated end products, can be exported here from abroad and, thanks to lower metal costs and much lower wage scales, can undersell the domestic manufacturer.

In consequence, list prices may mean very little. The independents claim that the integrated producers compete with their own customers on end products. They assert that profit margins are ample for the primary producers while the fabricators are caught in a profit squeeze. It seems evident that the number of non-integrated aluminum fabricators in the U.S. has increased too rapidly for their own good, from 201 in 1955 to 270 in 1959.

The producers assert that it is necessary for them to export

their excess production abroad and meet the lower foreign price, as otherwise it would be necessary to shut down the unneeded primary facilities, lay off labor, and, because interest and amortization charges would go right on regardless of output, suffer a rise in unit costs.

Obviously, the situation is not a happy one. *But one observation can be made — a hike in the aluminum price is not going to be easy to make, and it might prove difficult to pass on the higher wage rate automatically called for under the labor contract signed last year and due to take effect in December. The present 26 cent price has done no more than to restore the 2 cent cut that was made in 1958. It does not compensate for higher labor and power costs, and is not satisfactory to the producers.* But it could well last until demand improves or the price strengthens abroad. The latter could well happen because of the booming European economy. But in the interim it seems probable that investors must reconcile themselves to lower profits in 1960 than in 1959.

Misleading Forecasts for Zinc

The **Zinc** industry began 1960 with higher hopes of a record year. It had weathered the disastrous steel strike amazingly well. This had reduced demand from the galvanizers, best customers of the zinc industry, about 10 per cent from 1958. Yet slab zinc consumption in 1959 was 7½ per cent ahead of the year before.

The stage seemed set for a big year for zinc producers in 1960. Continuation of the strong demand for zinc for galvanizing appeared assured, especially for its use in automotive body construction. Continued strong call was anticipated from the die-casters. And the brass fabricators were optimistic. A price increase over the 13 cents a pound was believed possible.

With the year three-quarters gone, it now appears that early forecasts were too rosy and that 1960 consumption will not show the 10 per cent increase that was so confidently expected. While galvanized products have been one of the strongest factors in the faltering steel industry, the decline in the steel operating rate has finally reached the galvanizers. The die-casters have had a generally unhappy time, and demand from them for high-grade zinc has been disappointing. The brass industry, third largest consumer of zinc, has been hard hit by price-demoralizing imports from abroad. These three markets normally account for 90 per cent of total zinc consumption.

Statistically, the position of zinc has deteriorated since last March when shipments to industry touched nearly 81,000 tons. They declined to 50,000 tons in the usually dull summer months, but production was little affected. In consequence, smelter stocks of metal have climbed from 136,500 tons at the end of March to 202,700 tons at the end of August, an uncomfortably high figure, but still below the high of 1959.

Since January the zinc price has remained unchanged at 13 cents a pound East St. Louis. Such stability in itself is no mean achievement. Six changes occurred in 1959, in a range from 11 cents to 13 cents. In London the price has been quite steady around 11 cents a pound. This would not permit shipments to the U.S. at a profit, as the 0.7 cent a pound tariff would have to be paid, as well as shipping charges of similar amount, plus freight to the Pittsburgh area. But is is debatable whether the domestic 13 cent price will hold for the rest of the year without a slight reduction. True, buying by the die-casters has picked up recently, reflecting a faster pace in Detroit in production of the new auto models. Smelter production will also tend to decline as long as strikes at the plants of New Jersey Zinc and Bunker Hill continue. These events would bring supply into better balance with demand.

New Competition for Zinc

Other disturbing factors are not lacking. Not the least is the entrance of Du Pont's new Delrin plastic resin, on which the giant company has spent three years of experimentation and $42 million with car engineers, to enter the die-casting industry to compete in zinc's second largest sales field. It has been announced that Delrin would be used to cast the instrument panels in the 1961 Valiant cars to replace zinc. Its main advantages are lower weight and less cost. Zinc engineers appear unruffled, however, and assert that where durability, stress, and heat are vitally important, zinc die castings are superior. But the new development cannot be dismissed with complacency. Last year zinc-base alloys took over 370,000 tons of zinc, about 39 per cent of total consumption.

But . . .

Alive to the danger to its markets from competing materials, the zinc industry has launched a comprehensive research campaign to discover new uses and new markets for this old and vitally important metal. Considerable success has already been achieved. Zinc is used in some types of fuel cells now under development. This power source, producing electricity from chemical reaction, promises to have a great potential. Another example is a new zinc alloy containing small amounts of titanium and copper which is now being marketed under the name of T-Metal. It is claimed to offer unique advantages of being tough, corrosion resistant, and with excellent resistance to creep.

Zinc shares have rarely been over-popular with investors. The industry has lacked glamor, however vital the metal may be to industrial progress. Perhaps this is because zinc is seldom seen in its pure form but almost always disguised in brass or galvanized steel, or in paint or as filler in rubber. Supplies of zinc are ample both here and abroad, but the metal content of foreign ores is generally considerably higher than U.S. ores. Most zinc executives feel that 13 cent zinc is hardly adequate to insure reasonable profits for any but low cost mines, but they foresee little chance for much higher prices. Higher tariffs and quotas would bring a storm of protest from our neighbors on both sides of the border and are unlikely to be revised upward. But increasing consumption in Europe may eventually provide its own remedy through a price increase as demand grows.

Declining Consumption of Lead

Lead needs new markets. This

ancient metal has been losing ground to competitive materials in some of its principal sales fields. Consumption continued to lag through the first half of the year and was nearly 3 per cent under the corresponding period a year ago. Shipments in July were below the average for the last five years, and unsold stocks showed an increase for the fifth consecutive month. If it had not been for a steady demand from storage battery manufacturers, the picture would have been worse. Per capita use of lead has been declining since 1950, when it amounted to 16 pounds. Now it's about 12-13 pounds. Mine production has been declining as the result of prolonged strikes in the Idaho mines. Otherwise the present 12 cent price, which affords little or no profit to any but low cost producers, would probably have been reduced. It has held unchanged for over ten months.

This situation is realized by the lead industry which has also sponsored a vigorous research campaign to find new uses for the metal and broaden its present markets. Some interesting new developments have been reported, notably in promoting the use of lead in anti-vibration pads for quieting noise and dampening vibration where heavy machinery has been installed. Lead gives the best protection per unit of thickness at lowest cost against gamma rays in nuclear reactors. This use may provide an extensive new market. But on balance progress is likely to be slow. It seems unlikely that the lead price will advance appreciably above the present level within an indefinite time.

Problems and Opportunities

Components of the non-ferrous metal industry accordingly show a wide variation from rapid growth to mild stagnation. Growth, of course, has its problems, while stability and steady income may often be encountered even within a background of slowly declining demand. The foreign picture must also be carefully appraised, as it comprehends both the threat of intense competition for domestic producers and the opportunity for vastly expanded markets, for some metals at least. END

For Profit And Income

(Continued from page 39)

present earning power around $1.65 a share the stock lacks appeal at 16½, a new low for the year. In central-system air conditioning and related equipment, Trane Co. has the best record and may net around a record $3.00 a share for 1960, against 1959's $2.36. At a $0.90 rate, dividends have long been extremely conservative. It seems hard to justify the stock's recent rise to an all-time high of 75. Now at 70, it appears over-valued around 23 times earnings and yielding less than 1.3%.

Dividends

There are two clear indications that business managements, as well as investors, are viewing prospects ahead with increased caution. One is the further scaling down of previously forecast 1960 outlays for new plant and equipment, as revealed by the latest joint survey made by the Commerce Department and the SEC. The other is increased conservatism on dividends. The number of increases in August was 44, against 77 a year earlier, making it the fifth consecutive month in which the number of boosts ran under year-ago levels. Moreover, dividends were omitted or reduced in August in 32 instances, against 15 last year.

Growth and Income

The rule is that the sharper is the growth rate in earnings, the higher is a stock's price-earnings ratio and the lower is the current dividend yield; whereas an uncommonly high yield means little or no growth or above-average speculative risk. Especially in the present market situation, we lean to the "in-between" income-and-growth stocks. Reynolds Tobacco is one, offering solid value at 78, off from recent high of 83. The valuation is only 15.6 times expected record 1960 earnings around $5.00 a share, the current yield from the $2.60 dividend over 3.4%. This will be the eighth consecutive year of rising earnings, the seventh of higher dividends. Both trends probably will be extended in 1961. In due time the stock could readily sell above 100.

Corn Products

This is a similar situation, although with a slower average growth rate. It has high immunity to general business recession. The stock was recommended here at 57 in our July 2 issue, for reasons detailed therein. It is currently at a new all-time high of 65⅜. We think it has further potentials.

General Finance

Here is another conservative income-growth stock, in the installment-financing and small loan field. More than tripled in the postwar period, 1960 profit should reach a record $2.90-$3.00 a share, up from 1959's $2.69. Recently raised from a $1.20 to a $1.40 rate, dividends have risen in 11 out of the last 12 years. At 34, off from recent high of 37, the stock is priced at less than 12 times earnings and current yield is about 4.1%. END

The Trend of Events

(Continued from page 4)

will endeavor to swing into the Communist orbit the many new nations seeking membership in the UN, to pack the Security Council with Communist votes in order to throw the balance of power to the Soviet Union.

There is no question but that Khrushchev has chosen this moment for his "Big Play" to turn the tide against the United States. This makes it particularly important that we stand firm before the conclave of the nations of the world who are convening in New York—for any sign of weakness or compromise would be dangerous. We have the strength and the power to win if we use it with courage and determination. END

THE COMING
OIL CONFERENCE OF
LEADING NATIONS

SEE OUR ISSUE
OF OCTOBER 8